make the rules clear and simple promote a culture of compliance act decisively against misconduct educate investors and industry

BCSC 2004/2005
Annual Report

Working to make BC the best place to invest and raise capital.

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British Columbia Securities Commission
BCSC

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contents

overview The British Columbia Securities Commission (BCSC) is the provincial government agency responsible for regulating trading in securities in BC. We are accountable to the provincial legislature and the public through the Minister of Finance, to whom we submit our Annual Report and audited financial statements. We also submit a three-year Service Plan to the provincial Treasury Board as required under the *Securities Act*, our enabling legislation, and under the *Budget Transparency and Accountability Act*. Our Service Plan, which is renewed annually, contains our strategic objectives and action plans for achieving them. Our Annual Report describes the progress we are making compared with our plan.

BCSC statistics at a glance

Registrants	25,090	18,478	23,569
Active Reporting Issuers	6,366	6,206	6,231
Exemption Applications	442	478	902
Prospectus Filings (Mutual Funds)	2,649	2,390	2,514
Prospectus Filings (Non-Mutual Funds)	634	628	441
Initial Public Offerings receipted [1]	277	196	134
Cease Trading Orders (Reporting Issuers)	314	360	332
Continuous Disclosure Reviews [2]	721	287	210
Annual Information Forms [3]	1,039	631	535

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The British Columbia Securities Commission (BCSC) is the provincial government agency responsible for regulating trading in securities in BC. We are accountable to the provincial legislature and the public through the Minister of Finance, to whom we submit our Annual Report and audited financial statements. We also submit a three-year Service Plan to the provincial Treasury Board as required under the *Securities Act*, our enabling legislation, and under the *Budget Transparency and Accountability Act*. Our Service Plan, which is renewed annually, contains our strategic objectives and action plans for achieving them. Our Annual Report describes the progress we are making compared with our plan.

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[1] *Initial public offerings are a subset of all prospectus filings.*

[2] *The number of Continuous Disclosure reviews increased significantly due to our MD&A form review; the figure is not comparable to prior years.*

[3] *Statistics are for AIFs filed under the short form prospectus distribution system. The 2005 AIF figure rose significantly because we changed the deadline for filing these documents and some companies filed 2 AIFs during the year. For comparative purposes, 702 companies filed an AIF under the short form prospectus distribution system in 2005.*

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vision *what we are striving to achieve*

Our vision is to make British Columbia the best place in North America to invest and raise capital. To do this, we must remain leaders in securities regulation by being innovative, low cost, and tough but fair.

mission *our purpose and role*

Our mission is to protect and promote the public interest by: 1 *ensuring the securities market is fair and warrants public confidence* 2 *fostering a dynamic and competitive securities industry that provides investment opportunities and access to capital.* To fulfill both parts of our mission, we must protect investors from fraudulent, improper, and unfair practices while allowing market participants to pursue their economic interests without an excessive burden of regulation.

our primary business

We accomplish our mission through five broad objectives:

1 WE ENSURE THAT INVESTORS HAVE ACCESS TO THE INFORMATION THEY NEED TO MAKE INFORMED INVESTMENT DECISIONS An issuer raising capital from the public must disclose all material facts about its business to investors. A publicly traded issuer must also keep investors informed through periodic financial statements and accompanying disclosure about its financial and business affairs and through prompt disclosure of material changes in its affairs.

2 WE ESTABLISH QUALIFICATIONS AND STANDARDS OF CONDUCT FOR PEOPLE REGISTERED TO ADVISE INVESTORS AND TO TRADE ON THEIR BEHALF Firms and individuals that sell securities, advise investors, or manage portfolios must be registered and adhere to standards of conduct in trading, dealing with clients, and managing conflicts of interest. Registered firms must maintain minimum capital requirements. We regulate most registered dealer firms through self-regulatory organizations, which we oversee in cooperation with other Canadian securities regulators. (Firms and individuals may sell securities without being registered if they qualify for registration exemptions.)

3 WE PROVIDE RULES OF FAIR PLAY FOR THE MARKETS For example, to protect markets and investors from abusive practices, the *Securities Act* prohibits securities fraud, market manipulation, misrepresentation, insider trading, and unfair practices. 4 WE EDUCATE INVESTORS AND THE INDUSTRY We teach investors how to protect themselves before they invest their money. We help industry understand existing and proposed rules, so they can better comply with them. We use plain language to make the regulatory system accessible. 5 WE PROTECT INVESTORS AND THE INTEGRITY OF THE CAPITAL MARKETS We examine registered firms and monitor disclosure of publicly traded issuers for compliance with the rules. We investigate suspected frauds and market abuses. When we find non-compliance or more serious misconduct, we can take action against those responsible.

stakeholders

INVESTORS, both individual and institutional, who want to invest in fair and efficient capital markets

BUSINESSES, that rely on the capital markets to fund growth and diversification

THE SECURITIES INDUSTRY, which serves all stakeholders in the capital markets

THE PROVINCIAL GOVERNMENT, to whom we are accountable for conducting our affairs and administering the *Securities Act*

THE PUBLIC, who rely on us to ensure capital markets contribute to the economic well-being of British Columbia

our values

In managing the challenges of a rapidly changing marketplace and in pursuit of our mission we embrace the following values:

1. EXCELLENCE We commit to high standards and take pride in our work.
2. SERVICE We provide efficient, timely, and responsive service.
3. INTEGRITY We act fairly and ethically.
4. ACCOUNTABILITY We take responsibility for getting things done.
5. RESOURCEFULNESS We are proactive, innovative, and cost effective.

how we deliver our services

The Commission delivers its services directly through our own staff and operations and indirectly through alliances with other regulatory agencies. The Commission and the Alberta Securities Commission (ASC) share the responsibility for supervising the operations of the TSX Venture Exchange (TSX-V). We have authorized two other exchanges, Toronto Stock Exchange (TSX) and the NASDAQ Stock Market, Inc. (NASDAQ), to carry on business in British Columbia under exemption orders that rely on the oversight of their home regulators, the Ontario Securities Commission (OSC) and the United States Securities and Exchange Commission respectively (SEC). We rely on self-regulatory organizations to perform some key regulatory functions, and we oversee these organizations in cooperation with regulators in other Canadian jurisdictions. These organizations are:

The Investment Dealers Association of Canada (IDA) The national securities industry association and self-regulatory organization for investment dealers, which registers investment firms and their representatives under delegated authority and regulates their conduct and capital adequacy.

The Mutual Fund Dealers Association of Canada (MFDA) The self-regulatory organization for mutual fund dealers, which regulates their conduct and capital adequacy.

Market Regulation Services, Inc. (RS) The independent market regulation services provider, which monitors trading activity for the Canadian equity markets and helps monitor listed companies' compliance with exchanges' timely disclosure and other requirements.

staff and funding

The BCSC has a staff of 184 permanent employees and an annual budget of $26.7 million (fiscal 2004-05). We are funded entirely by fees and charges collected under the *Securities Act* from market participants.

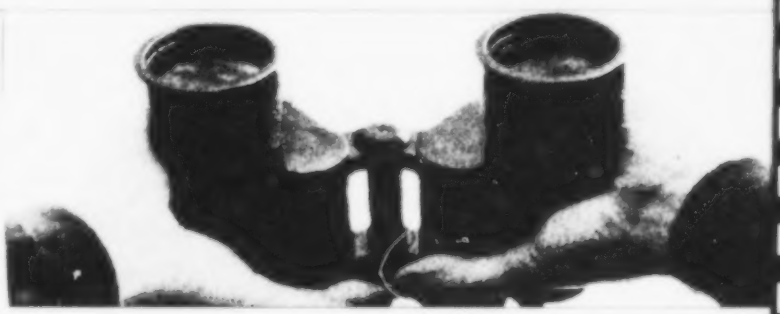
Our collaboration with other regulators

The BCSC participates in Canada's national system of securities regulation as an active member of the Canadian Securities Administrators (CSA). We also participate in the North American Securities Administrators Association (NASAA), an organization that includes American state and Canadian provincial securities regulators, and we regularly cooperate and coordinate with American federal and state regulators on enforcement matters. The BCSC is also a member of the International Organization of Securities Commissions (IOSCO) and Council of Securities Regulators of the Americas (COSRA), bodies representing international and pan-American securities regulators, respectively.

IOSCO regulatory standards

IOSCO is recognized as the international standard-setter for securities regulation. The IOSCO Objectives and Principles of Securities Regulation, adopted in 1998, has become the fundamental reference for benchmarking and assessing a jurisdiction's securities regulation. The Principles support the fundamental purposes of regulation, namely, investor protection; fairness, efficiency and transparency in the markets' operation; and reduction in systemic risk. They are comprehensive without being too prescriptive and therefore can be integrated into all domestic environments. ■ The IOSCO Principles are recognized as one of the key sets of standards and codes operating within the international financial system. ■ IOSCO also promotes regulatory cooperation through the IOSCO Multilateral Memorandum Concerning Consultation and Cooperation and the Exchange of Information (IOSCO MOU), which defines clearly the legal authority that individual regulators need for efficient and timely information exchange, and establishes the conditions under which exchanges should occur. ■ IOSCO members must go through a screening process to establish their capacity to meet the expectations of an MOU signatory before being permitted to sign the MOU. The BCSC is one of 26 IOSCO members that have signed the IOSCO MOU.

The Principles support the fundamental purposes of regulation, namely, investor protection; fairness, efficiency and transparency in the markets' operation; and reduction in systemic risk.



The year 2004-05 was one of hard work, surprise, evolution, teamwork, and accomplishment for the BCSC. The new legislation was our highest profile project and it required extraordinary efforts from many people to develop it and get it ready for implementation.

In parallel with this task, we continued our usual regulatory work and moved forward on a broader front to develop a new approach to regulation that is more effective for protecting investors and less burdensome for market participants. We also developed an innovative teaching resource for the finances component of a new high school course, called Planning 10, as part of our growing commitment to investor education.

New legislation: new approach

We delivered on the commitment we made to government in October 2001 to develop new streamlined and simplified legislation. The new *Securities Act* is clearer and better organized than the current Act and includes significant new enforcement powers and investor remedies. Through extraordinary efforts by our new legislation team and many others throughout the BCSC, and with the support of our partners in government, we were ready to implement the legislation in November.

Despite the government's decision to delay implementation of the new legislation to give industry more time to get ready, we continued reforming regulation in a way that is consistent with the philosophy of the new legislation. We have sharpened our focus on attacking the more significant threats to investors and market integrity so BCSC resources are used in the most cost effective way to achieve our regulatory objectives. To minimize the burden on industry and to place responsibility for compliance where it belongs, with senior management, we now aim to address regulatory issues by directing the outcome to be achieved rather than imposing detailed and inflexible requirements.

This report describes the steps we took to complete development of the new legislation, to get ourselves and industry ready for implementation, and then to adjust our plans when implementation was delayed. I am proud of how our entire organization was able to adapt quickly to the change in circumstances and keep moving forward. When the government decides to bring the new legislation into force, probably in 2005-06, we will be ready to implement it.

National regulatory reform

While we in British Columbia have been reforming *how* we regulate, Canada has been engaged in a seemingly endless debate about the structure of our

regulatory system. Various governments are working on proposals to either make our decentralized regulatory system work better or to replace it with a more centralized system. It is up to governments, not regulators, to decide on any structural changes. We stand ready to assist with the development and implementation of any structural reform proposal that our government decides on.

In 2004-05, our minister and ministers from the other provinces and territories (except Ontario) signed a memorandum of understanding for a passport system to simplify market access, to develop highly harmonized and streamlined legislation, and to review the fees charged to market participants.

In the latter part of the fiscal year, we worked intensively with our CSA colleagues to develop rule and policy changes to simplify market access, the first phase of the passport system. Under the proposed Principal Regulator System rule, each market participant would be subject to only one set of laws and would be able to deal with only one regulator. The rule would be complemented by some policy changes to streamline our existing mutual reliance review systems.

The first phase of the passport system also includes the National Registration System, which was implemented in April 2005, and a new harmonized exemptions rule targeted for implementation in September.

As discussions proceed on the passport system, and on other national reform proposals, it is critical that the debate go beyond the issues of structural change and legislative harmonization. We have learned from our experience in British Columbia that we can achieve more from a concerted effort to streamline and simplify regulatory requirements and to reform the way we administer securities legislation. In fact, the risk is that focusing exclusively on structural changes and harmonizing legislation could entrench an outdated and burdensome style of regulation. We would miss an opportunity to bring real improvements that can protect Canadian investors better and make our markets stronger and more competitive internationally. For that reason, we urge all market participants, including investors, to speak up for reforming the approach to and content of securities regulation.

We have learned from our experience in British Columbia that we can achieve much from a concerted effort to streamline and simplify regulatory requirements and to reform the way we administer securities legislation.

International regulatory cooperation

We focused more efforts during the year on building our relationships with foreign securities regulators to help us deal with the continuing growth of cross-border securities activities. In November 2003, we became a signatory to the IOSCO MOU on enforcement cooperation. We also have older bilateral MOUs with regulators in Australia, China, Hong Kong, France, and the United States. During the past year we made 11 requests for information under the MOUs and responded to 26 requests from other countries. Through the IOSCO MOU monitoring committee, we are working

with our colleagues to assess the effectiveness of these cooperative arrangements and to improve the system.

In September, we hosted a meeting of COSRA, attended by representatives of 19 countries. Participants discussed the progress made on two initiatives: finding ways of helping small and medium size enterprises gain access to capital; and identifying tools and programs to build the regulatory capacity of COSRA members. We also discussed issues arising from the convergence of accounting principles to international accounting standards. The meeting gave us an opportunity to strengthen relationships in the Western Hemisphere and to coordinate with our neighbours our participation in IOSCO discussions.

Planning 10

In September 2004, the provincial government introduced Planning 10 – a new, mandatory grade 10 course designed to give students the skills they need to become healthy, responsible, financially aware adults.

When we learned in 2003 that the provincial government was designing a course that included financial life skills, we began developing curriculum materials for that part of the course. We held focus and discussion groups with teachers and students from different parts of BC to determine their needs and interests. Later, we convened a teacher advisory group to review the draft materials and provide advice.

The result is an engaging, comprehensive and easy-to-use resource for teachers and students. It covers budgeting, savings, credit and debt, insurance, taxes and investing. It also requires students prepare a personal financial plan for their transition from high school. The resource includes:

- a Teacher Kit containing: a binder of lesson plans and student activities, posters, and a dvd
- student portfolios
- an interactive website for teachers and students
- a teacher training program

To date, over 900 teachers from all over the province have requested and received the Teacher Kit. Over 400 of those teachers have attended one of the 22 teacher training sessions we held in a number of school districts.

By providing this resource, the BCSC hopes to help young people acquire the knowledge, skills, and confidence they'll need to begin planning for their post-secondary education or career, and to navigate safely through the financial realities of adulthood.

Changes at the BCSC

We had some significant changes in the senior ranks of the BCSC in 2004-05. Steve Wilson retired on September 30, after more than five years as our Executive Director. Steve's accomplishments as our Chief Operating Officer were remarkable. He brought sound business practices to the BCSC, significantly strengthening our planning and performance monitoring and increasing internal discipline and accountability for financial and human resources management. He played a leadership role in our move toward problem-focused and outcomes-based regulation and in developing better internal processes for investigations and enforcement, including speeding up investigations. I would like

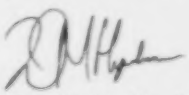
to thank Steve personally for his support and assistance and his enormous contribution to the BCSC during a time of profound change and development.

In a very smooth transition, Brenda Leong replaced Steve as Executive Director, moving up from her position of director, legal and market initiatives. Brenda has brought to the position her legal and policy experience and a new energy to our planning and regulatory processes. We also welcomed Robin Ford to the BCSC as a new full-time commissioner. Robin came to us with significant experience at the UK Financial Services Authority, a world leader in developing and applying outcomes-based regulation. She has contributed from the start by chairing several hearings and providing significant policy input on a wide range of issues.

Challenges ahead

As we look back on the accomplishments of the last year, we are tackling the new and continuing challenges of 2005-06. We have set ambitious objectives for the new year to push ahead with strengthening regulation and supporting the fairness and efficiency of our markets. Achieving these objectives will require us to apply our talents and resources diligently and to work more effectively than ever with our CSA colleagues as we try to meet our objectives at the national level.

I would like to thank my fellow commissioners and the management and staff of the BCSC for their remarkable efforts and achievements in 2004-05. I look forward to another challenging and productive year ahead.



Douglas M. Hyndman
Chair and Chief Executive Officer

ACCOUNTABILITY STATEMENT

June 15, 2005

The 2004-05 British Columbia Securities Commission Annual Report was prepared under my direction in accordance with the Budget Transparency and Accountability Act. I am accountable for the contents of the report, including the selection of performance measures and how the results have been reported. The information presented reflects the actual performance of the Crown agency for the twelve months ended March 31, 2005. All significant decisions, events and identified risks, as of March 31, 2005, have been considered in preparing the report.

The information presented is prepared in accordance with the BC Reporting Principles and represents a comprehensive picture of our actual performance in relation to our Service Plan.

Douglas M. Hyndman, Chair and Chief Executive Officer

organizational chart

Chair

Commissioners

General Counsel

Special Advisor

Secretary to the Commission

Executive Director

Regulatory Projects

Economic Analysis Office

Capital Markets Regulation

Communications and Education

Corporate Finance

Enforcement

Finance, Human Resources & Administration

Information Management Services

organizational chart

The provincial government appoints commissioners who are responsible for administering the *Securities Act*. They are chosen for their skills and experience in business, law, capital markets and regulation. The BCSC currently has 10 commissioners: four are full time, one of whom serves as chair and chief executive officer, and six are part-time. ■ The commissioners perform three functions. They:

1. serve as the BCSC's board of directors and oversee management
2. establish regulatory policy and make legally binding rules (subject to the approval of the minister responsible for the Act)
3. act as an administrative tribunal and make regulatory decisions under the legislation

THE BCSC'S COMMISSIONERS ARE:

Doug Hyndman *Chair, Appointed 1987* (12)

Brent Aitken *Vice Chair, Appointed 1995* (8)

Adrienne Salvail-Lopez *Vice Chair, Appointed 1992* (9) *Member, BCSC Audit Committee* (5)

Robin Ford *Full-time Commissioner, Appointed in 2004* (7)

Neil Alexander Commissioner, *Appointed 2002* (12) *Member, BCSC Audit Committee* (5)

Joan Brockman *Commissioner, Appointed 1998* (10) *Member, BCSC Audit Committee* (5)

Marc Foreman *Commissioner, Appointed 2002* (11) *Member, BCSC Human Resources Committee* (5)

John Graf *Commissioner, Appointed 1998* (11) *Chair, BCSC Audit Committee* (5)

Bob Milbourne *Commissioner, Appointed 2002* (12) *Chair, BCSC Human Resources Committee* (5)

Roy Wares *Commissioner, Appointed 1998* (12) *Member, BCSC Human Resources Committee* (5)

The number in brackets is the number of meetings of the board that the commissioner attended. The Commission held 12 regularly scheduled meetings during the year.

The number in brackets is the number of meetings of the committee that the commissioner attended. During the year the committees each held 5 regularly scheduled meetings.

More information about the commissioners is available on the BCSC website: www.bcsc.bc.ca

BCSC's Governance Policy and Conflicts of Interest Rules can be found on our website. These include information about:

- The terms of reference for the Commission, the Chair, the commissioners, the Audit Committee and the Human Resources Committee
- Appointment, evaluation and compensation of commissioners
- Expected standards of conduct of commissioners and staff

Lang Evans, Director, Capital Markets Regulation

CAPITAL MARKETS REGULATION Capital Markets strives to ensure that registered firms operate in compliance with the requirements of the securities legislation and employ advisers and salespersons that are competent and of good character. We carry out this work by:

- registering firms and individuals under the Act and supervising the registration activities the IDA performs for us under delegated authority
- doing periodic audits and using other means to monitor the activities of the IDA, MFDA, RS, and TSX-V
- using examinations, education and guidance to foster a culture of compliance in registrants
- using a risk-based approach to identify registrant non-compliance and then applying the tools at our disposal to correct the problem – these include negotiating settlements, imposing conditions of registration or referring matters to Enforcement.
- developing efficient regulatory solutions to issues relating to registered firms and individuals
- encouraging the IDA, MFDA, RS, and TSX-V to adopt rules that are efficient, results-oriented and drafted in plain language

Martin Eady, Director, Corporate Finance

CORPORATE FINANCE Markets operate most efficiently when all investors have access to timely, accurate and complete information. Corporate Finance works to provide investors with access to the information they need to make informed investment decisions. It meets this mandate through many activities. The Corporate Disclosure team reviews offering documents, such as prospectuses, and monitors public company disclosure, including financial

statements and insider reports. The Legal team advises the Commission on regulatory policy initiatives and reviews applications for discretionary relief. The division conducts ongoing programs to educate reporting issuers and their advisers, and takes compliance action in serious cases of misleading disclosure and corporate abuses.

ENFORCEMENT The Enforcement Division's mandate is to protect the investing public by investigating abuse and misconduct in capital markets and taking action against wrongdoers. ■ Three groups within the division carry out this work. Our Intelligence and Assessment group is responsible for discovering, receiving and assessing problems and complaints about alleged misconduct and abuse in our capital market. Our Investigations group investigates alleged violations of the *Securities Act* to following regulatory or criminal procedures. Cases are then referred to Litigation, which deals with the matter under the Commission's administrative powers, or to Crown Counsel for criminal prosecution.

Sasha Angus, Director, Enforcement

COMMUNICATIONS AND EDUCATION Communications and Education serves two roles for the Commission. First, it supports the Commission in delivering its strategic messages to external stakeholders through various channels and vehicles, including speaking engagements and the media. Second, it develops and delivers industry and investor education programs. ■ To deliver the Commission's messages to investors, the department forms partnerships with investment firms, service groups, financial and non-profit public organizations, and other government agencies to develop and disseminate information and materials to its target audiences. The department also coordinates the involvement of BCSC staff in investor education through the Staff Ambassador program. ■ The department supports the BCSC's operating areas in developing and delivering industry education initiatives, including seminars,

Michael Bernard, Manager: Communications and Education

conferences and publications. Communications and Education also disseminates information to the public through the media on enforcement matters, liaises with government, and works on joint education initiatives with regulatory counterparts.

INFORMATION MANAGEMENT SERVICES Information Management Services is responsible for providing information to the public and making information available to Commission staff. The division operates in four departments: Information Systems, Knowledge Management Services, Records Management, and the Project Management Office. The division provides information to the public through the Commission's website, telephone and email inquiries, and Freedom of Information requests. It is also the business area of the Commission responsible for receiving complaints from the public. Internally, it provides research services to Commission staff, manages all physical and electronic records, coordinates process improvements and automation, designs and develops web-based computer applications, manages all computer systems, maintains information privacy and security, and oversees the Commission's business continuity program.

Peter Grant, Deputy Director, Information Management Services, and Chief Information Officer

FINANCE, HUMAN RESOURCES AND ADMINISTRATION We help maximize the use of Commission resources by providing human resource, financial, and facilities management services.

OUR HUMAN RESOURCES GROUP

- helps recruit employees
- manages our succession plan to safeguard our regulatory competencies
- coordinates our performance management system
- manages training of our employees

OUR FINANCE AND ADMINISTRATION GROUP

- manages financial and physical risks through prudent financial management and strong internal controls
- leads budget planning, tracking and reporting
- reports on our financial performance and position

John Hinze, Deputy Director, Finance, Human Resources and Administration, and Chief Financial Officer

The BCSC's work directly supports Goal 1 in the government's current strategic plan: *"a strong and vibrant provincial economy."* We support two of government's strategies to improve the province's economy through innovation and economic growth:

1. **Market British Columbia's competitive advantages and opportunities as an investment location, tourism destination and trading partner** Today, BC is recognized as a leading centre for raising venture capital in the public markets. Through our outcomes-based approach to regulation we are focusing on regulation that reduces costs and complexities and provides better protection for investors. This benefits investors and companies operating in BC, particularly junior companies that raise capital in BC's venture capital markets.

2. **Increase mining exploration and development activity** BC is the centre of excellence for mining in Canada. The Commission brings technical, legal, and accounting expertise to the regulation of mineral exploration companies. We work directly with companies in the mining industry and with industry representatives like the Mining Technical Advisory and Monitoring Committee, a forum CSA established to foster communication between the mining industry and securities regulators.

We contribute to four of the strategies to improve the overall management of government in the province:

1. **Continue to streamline government's legislation and regulations** We developed new securities legislation, passed by the legislature in May 2004 and now awaiting implementation, that reduces the number of securities regulatory requirements by more than 50%. We are committed to streamline regulation by applying lean policymaking principles to the development of any new rules and amendments to current rules.

2. **Promote new and more effective ways to deliver services and infrastructure through alternative service delivery and partnership arrangements** We have worked with other

provincial securities regulators to develop national electronic systems to make it easier for market participants to access the securities markets and meet their regulatory requirements. The System for Electronic Data Analysis and Retrieval (SEDAR) simplifies the filing of disclosure documents by public companies and is considered the best national public company database in the world. The National Registration System (NRS) has made it easier for investment firms and their representatives to get licensed to do business. The System for Electronic Disclosure by Insiders (SEDI), replaced a paper-based system with one that allows insiders to file their insider reports electronically. Locally, we developed and maintain a website (http://www.bcsc.bc.ca/planning10/) to support the Ministry of Education's grade 10 financial planning curriculum. The website and the accompanying teaching resource are available to teachers and students from all parts of our province.

The Commission is a self-funded organization that has, over the past several years, focused on delivering value to our stakeholders.

3 **Expand public access to government through e-government initiatives** We were the first provincial securities regulator to launch a public website and are now the first to have the capacity to "push" regulatory information out to individuals, other websites, and professional news services. We recently introduced a web-based e-services facility to allow our stakeholders to file some types of exemption applications, and pay the related fees, electronically.

4 **Reform the province's Crown corporations to focus on efficient and effective service delivery** The Commission is a self-funded organization that has, over the past several years, focused on delivering value to our stakeholders. We continue to promote a service-oriented culture, and recently introduced new performance measures to hold ourselves accountable for meeting target service standards. We also undertake stakeholder satisfaction surveys to measure our effectiveness in providing services to market participants.

Each year we look for opportunities to be more effective in meeting our mission to protect and promote the public interest. Last year was no exception. Our four goals were aimed at strengthening investor protection while reducing the burden of regulation. This is fundamental to our continued development of a system of regulation that is responsive, effective, flexible and outcomes-based.

The heart of our plan went to ensuring a smooth transition – for both our organization and market participants – to a new *Securities Act*. After three years of development, we delivered draft legislation to the government, on time and on budget, which was passed in the legislature in May 2004. This milestone put our entire organization into high gear for the following six months. Our staff's effort throughout this demanding period was monumental; no aspect of our operations was unaffected. We prepared to implement new systems and processes, trained personnel at all levels, and delivered a comprehensive industry education program to market participants in BC and elsewhere in Canada. Our staff accomplished all of this in addition to meeting their other regulatory objectives. In the fall, the government decided to delay implementing the new Act to allow market participants more time to prepare for the change.

Although the new legislation has been delayed, we learned much from our experience in getting ready for it. Most importantly, it has affirmed our approach to regulation and furthered our thinking about how to regulate more effectively. While consulting with stakeholders is not new to us, we learned a great deal about meeting market needs through our dialogue with industry, and we plan to keep that dialogue going. Operationally, because many components of our transition plan crossed multiple business units, we are more conscious about working collaboratively, making us better problem-solvers and service providers. We are fully committed to an outcomes-based approach to regulation, which is evident in the Commission's Service Plan objectives for 2005-08.

In addition to being focused on preparing for the new legislation, we made headway on many other key initiatives over the year. To continue our efforts to foster a culture of compliance, we reassigned staff to our disclosure compliance group to be more effective at detecting market abuses of misleading disclosure. We also stepped up our continuous disclosure review program by focusing our reviews using a risk-based approach.

To continue to strengthen our enforcement capabilities, we undertook to improve our ability to identify market misconduct in the early stages. Our Intelligence and Assessment unit made good progress by increasing the percentage of cases it opened as a result of our own intelligence efforts. Enforcement staff also worked diligently to reduce the backlog of cases, rising to the challenge of balancing speed with quality. To promote more effective criminal justice responses to serious cases of capital market abuse, we continue to support

the federal Integrated Market Enforcement Team (IMET) in BC by seconding one of our investigators to IMET and participating at a senior level on their Joint Management team.

Our Capital Markets Regulation group worked closely with RS to expand the scope of the cease trade order database (a national repository of cease trade orders issued by provincial securities regulators) to include orders against individuals as well as companies. This joint initiative has become an indispensable compliance tool for investment dealers trading securities in Canada and will be hosted on the CSA website this summer.

Our Legal and Policy group developed new rules to promote quality governance standards for public companies: *National Instrument 58-101 Disclosure of Corporate Governance Practices* will require public companies to disclose their corporate governance policies and practices, effective June 30, 2005, and *Multilateral Instrument 52-509 Audit Committees*, which comes into effect on July 1, 2005, will establish requirements for independent representation on the audit committees of public companies.

Another significant initiative we completed during the year was the redesign of our public website in December 2004. We view our website as a primary strategic tool for delivering information to the public and market participants, and for increasing our transparency. We made the website more functional and accessible and added many enhancements, including internet-based news feeds that "push" information on policies and regulations out to individuals, other websites and the news media. We are the first securities commission in Canada to offer this feature and the only one that hosts its own site. We are proud of our efforts in website development and continue to work on making our website a leading resource for regulatory information.

Organizationally, we made a major change to our operating structure in September 2004 when we integrated the operations and staff of Legal and Market Initiatives into our Corporate Finance Division, responsible for issuer regulation, and Capital Markets Regulation Division, responsible for dealer and adviser regulation and exchange and self-regulatory organization supervision. Legal and Market Initiatives was responsible for developing policy and dealing with discretionary relief applications. The new structure consolidates all of our professional expertise under one roof for each market segment resulting in more efficient and effective regulation.

Financially, we have committed to operate the Commission on a break-even basis. Last year, our financial situation improved, reflecting continued cost controls, stronger revenue generated by increased activity in the financial markets, and one-time gains related to prior year filing fee recoveries and the timing of filing dates in the 2004-05 fiscal period. As a result, we ended the year with better than planned performance in both revenues and expenses.

Our Education Fund disbursements increased significantly over the previous year. Our largest expenditure was for the design and development of curriculum materials and web resources for the financial and investment component of the Ministry of Education's new Planning 10 program. Planning 10 is a mandatory course for grade 10 students in British Columbia, designed to teach

them the skills they will need to make the transition to adult life. This is by far the Commission's most ambitious education effort aimed at youth to date.

To ensure staff and Commission accountability, we operate under an objectives-based performance management system. Staff worked diligently to meet their targets and we delivered on 91% of our strategic objectives, up from 88% in 2003-04. Providing timely service to our stakeholders remained at the forefront of our priorities. We strengthened our key performance indicators during the year, setting targets for timeliness and responsiveness for some of our core services. These new measures will bring added discipline to our performance.

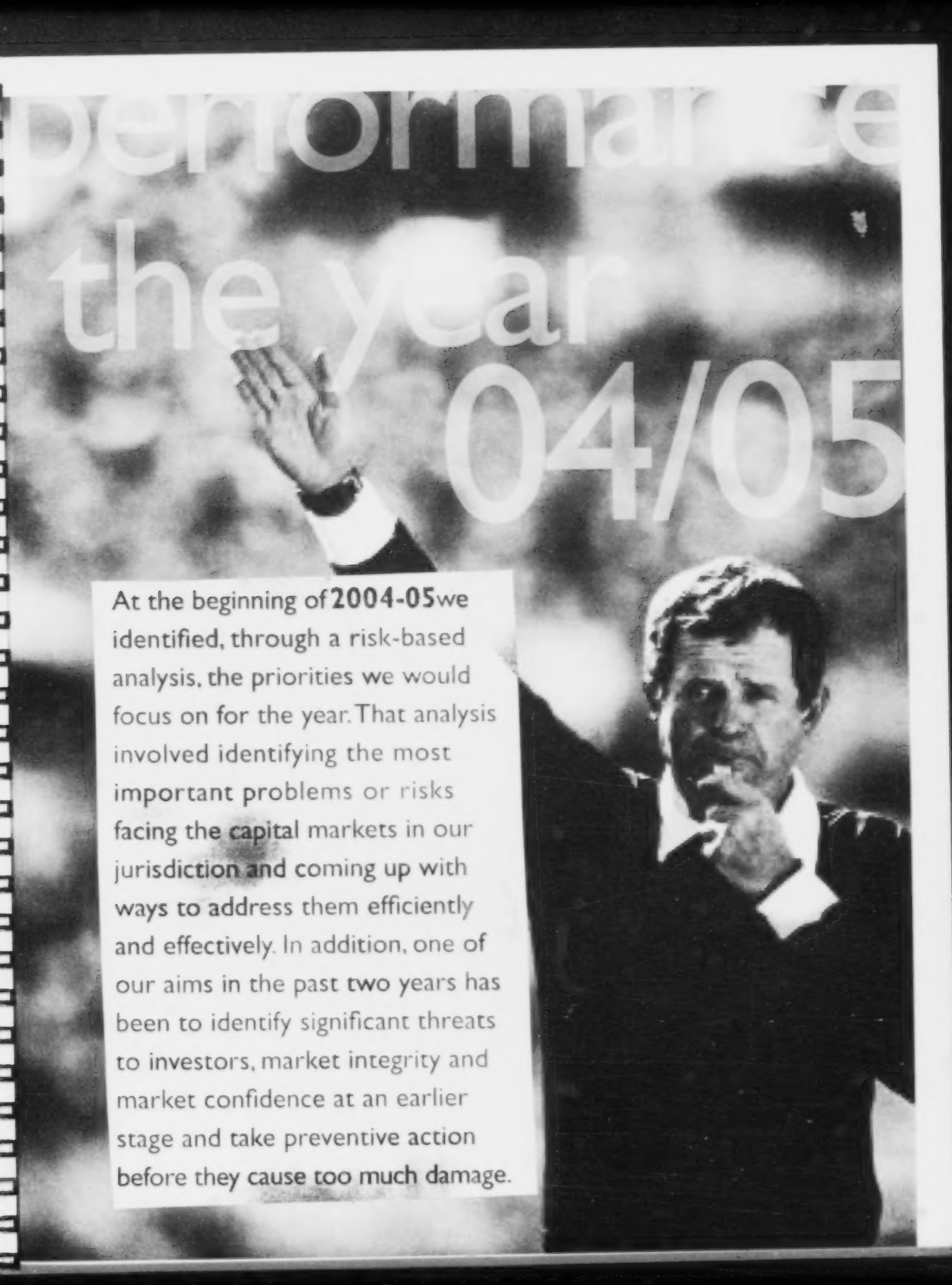
Our staff continues to be the backbone of our Commission, consistently meeting ambitious operating objectives and committing to provide the highest standards of service to our stakeholders. In recent years, they have done this while simultaneously rising to the challenge of being innovators in securities regulatory reform. More than 100 BCSC staff – over half of our people – are active in our Staff Ambassador Program, dedicating their time, energy and enthusiasm to a variety of investor education programs we deliver throughout the province. Last year, our Staff Ambassadors pitched in to deliver 97 seminars in cooperation with groups like the Rotary Club, the Coalition to Eliminate the Abuse of Seniors, ethnic radio station CHMB, Junior Achievement BC, chambers of commerce, the BC Crime Prevention Association, credit unions and many others. We are extremely proud of our staff's commitment to helping the public learn more about investing and how to protect themselves from risky and dubious investment schemes.

We are committed to acknowledging and fostering our staff's dedication through programs like the organization-wide internal communications initiative we began last year, and will continue to build on next year. Keeping them informed about the Commission's priorities and directions will ensure that they continue to be fully informed and engaged. We also recognize their achievements annually by presenting awards to those individuals who stand out during the year as having demonstrated the core attributes valued by the Commission – drive for results, communication, problem solving, customer service, and teamwork and cooperation.

To guide us in 2005-06, we developed our service plan applying a structured risk management methodology. We are moving ahead with our new regulatory approach, which is characterized by establishing clear and fundamental standards of conduct, and applying discipline when deciding whether to add regulatory requirements to ensure that the costs are not disproportionate to the benefits. It also means employing a risk-based methodology to identified market threats and developing optimal solutions to deal with them using a range of regulatory tools, including compliance, education and enforcement. In the coming year, we will continue to allocate our resources where they have the greatest impact, look at ourselves through a microscope to continue to improve, and measure our progress in ways that can be readily judged by the public, government and market participants.

Brenda M. Leong
Executive Director

performance the year 04/05



At the beginning of **2004-05** we identified, through a risk-based analysis, the priorities we would focus on for the year. That analysis involved identifying the most important problems or risks facing the capital markets in our jurisdiction and coming up with ways to address them efficiently and effectively. In addition, one of our aims in the past two years has been to identify significant threats to investors, market integrity and market confidence at an earlier stage and take preventive action before they cause too much damage.

how we set our objectives and performance standards for the year

The BCSC gets information about problems in a variety of ways. We regularly receive general or specific complaints or tips about market misconduct or practices that may harm investors. We are also alerted to problems and emerging issues in our compliance reviews of market participants and in dealing with applications to the Commission for discretionary relief (for example, exemptions from the legislative requirements). We identify systemic problems through our annual strategic planning process, internal problem identification initiatives, and ongoing contact with industry and investors. ■ Last year, we continued to use the following problem-solving approach:

1. *identify significant threats to investors and market integrity, systemic market problems, or patterns of non-compliance with the securities legislation*
2. *adopt creative, tailored, cost-effective strategies and solutions for dealing with these problems using the appropriate regulatory tools*
3. *evaluate the impact of our actions in managing or mitigating these risks and improving compliance*

Guided by this approach, we pursued four goals for the year, which encompassed large projects we had initiated in the previous two years:

1	2	3	4
keep the rules few, simple and clear	foster a culture of compliance	act decisively against misconduct	educate and inform investors and industry

We implemented strategies to achieve each of these goals over the year and, for the first time, specified service standards and performance measures in a number of areas. ■ The BCSC has always set internal service standards and measures, which we use to evaluate our performance. We are currently improving the way we set and report these measures, so the public, government and other stakeholders can better assess how we are doing. Our Service Plan for 2004-07 reflects our initial attempt to publish more meaningful performance measures and standards. While this is still a work in progress, we have been much more specific in describing our performance in this year's annual report than in previous years. In our 2005-06 strategic planning process we further improved and increased our performance measures. As a result, we expect that our performance will become increasingly easy for our stakeholders to assess in future years.

goal 1: keep the rules few, simple and clear

Our current system of securities regulation imposes costs on public companies and investment firms that are higher than necessary. *Industry participants have repeatedly told us that they are struggling with too many complicated, rigid and continually changing rules. Since investors ultimately bear the cost of regulation, our objective was to design a system that provides better investor protection at a lower cost by keeping the rules that govern market participants few, simple and clear. We have worked on this major initiative for three years. In 2004-05 we met our objective of completing new securities legislation and preparing for its implementation.*

STRATEGIES

1 NEW LEGISLATION

Our principal strategy for achieving our goal of keeping securities rules few, simple and clear was to be ready to implement a new *Securities Act* by the end of 2004. We were ready to implement in November 2004 in accordance with the plan. However, the government decided to delay proclamation, indicating it was responding to industry concerns that more time was needed for market participants to adjust their practices to comply.

The new legislation is far more streamlined, simple, logically organized and understandable than the current *Securities Act*. It is designed so market participants can more easily understand and meet their regulatory obligations. The legislation consists of the new *Securities Act*, Securities Regulation, and related rules. We also prepared comprehensive guidance to help industry meet its obligations under the new system.

The new legislation is based on the traditional, fundamental mechanisms of investor protection: disclosure to investors and regulation of dealers and advisers. It requires that public company information be written in language that investors can understand, provides for stronger penalties against those who break market rules, and gives investors more rights to sue for damages if they lose their money as a result of a market participant's misconduct. The new legislation significantly reduces the regulatory burden on securities industry participants. It minimizes bureaucratic paperwork and replaces costly detailed requirements that provide little investor protection, with fewer requirements focused on delivering the best outcomes for investors.

Progress over the year

In order to be ready to implement the new legislation by the end of the year, we needed to have the new *Securities Act* passed in the Spring 2004 session of the legislature, publish draft rules and guidance for comment and finalize them, educate Commission staff and market participants and adapt our systems and processes to the new regime.

The Legislature passed the Act during its Spring session and passed minor amendments in the Fall

session. The rules and guidance were published for comment during the summer. We made appropriate changes to these instruments and finalized them for ministerial approval in the fall.

To meet the needs of market participants, we established an Industry Education and Guidance Project that delivered 14 programs to 1,745 attendees. The programs addressed a range of subjects to help public companies and registrants operate under the new system. We also held a special briefing on the new legislation for non-BC based companies.

All of these were substantially completed by the middle of November, in time for the then-expected implementation date for the new legislation. We had also planned to hold more sessions to fill the demand from market participants, but cancelled them when the new legislation was delayed.

Internally, we developed a thorough transition plan to ensure our operating divisions were ready to implement the new legislation, and we provided comprehensive staff training. We also made the system and process changes that were required. These activities were completed as scheduled and we were ready to implement the new legislation by the middle of November.

Despite the government's decision to defer implementation of the new legislation, we have maintained our focus on the outcomes-based approach to regulation that it reflects. Our Service Plan for the coming year aims to fully implement our new approach to regulating, under either the new Act or our existing legislation. Our goal is to achieve the fundamental goals of investor protection and market integrity in a way that suits today's markets.

Timing and success measures

Ensure each element of the new regime is in force on its target date

- We completed the targets within our control although with some delays.
- The new legislation was enacted in the Spring Session as planned but two months later than targeted.
- We published draft rules for further comment in June rather than April due to delays in finalizing and passing the Act.
- We revised the rules to reflect comments and delivered them to the Minister for approval in September rather than July. Given the delays in finalizing the Act and publication of the rules in June, our original deadline was not achievable.
- We trained Commission staff and were ready to implement systems and process changes. Initial training a d preparation of market participants was also completed in time for the originally planned proclamation in November.
- None of the delays mentioned put at risk the target implementation date of November 15.

Complete the transition without major disruptions to market participants

Because the government decided to delay proclamation, we were unable to complete our transition to the new regime. Our transition plan and industry education and guidance program were designed to ensure that we would complete the transition to the new regime without major unexpected disruptions.

Exceed government's target for reductions to regulatory requirements

If the new legislation had been adopted, we would have eliminated 11,529 regulatory requirements, or a reduction of 54%. This would have exceeded the government's mandated one-third reduction.

BC'S OUTCOMES-BASED APPROACH TO REGULATION

BC's new approach to regulation is founded on the same principles that have governed securities regulation for decades, but it features important differences from the old style of regulation that are designed to deliver significant improvements for investors and market participants. These are key features of our approach:

Standards, not detailed requirements Regulatory intervention is not always the right answer to market problems. When regulators mandate excessively detailed and prescriptive requirements, market participants tend to follow the letter and not the spirit of the rules, and the costs imposed on the market often exceed any benefits. Excessive regulation can undermine the goals of investor protection and market integrity. ■ We think it is better to set clear and fundamental standards of conduct for market participants and apply them using a range of regulatory tools like guidance, education, compliance, and enforcement. This encourages market participants to exercise judgment about what is right and wrong, rather than what they can or cannot do under the rules.

Rules that fix problems, not symptoms When a rule is clearly necessary, it should be tested for its effectiveness, neutrality, flexibility, scope, and clarity.

Effectiveness The outcome of a rule should be clear and likely. When the link between a rule and a desired outcome is weak, the risk is that the rule will impose a regulatory burden without yielding corresponding benefits to industry or investors. Badly designed rules can create more problems than they solve.

Neutrality A rule should not systematically favour one type or size of market participant over another unless that is essential to achieve the intended outcome.

Flexibility A rule should require market participants to exercise judgment in their business practices. It should place responsibility on directors and senior management to establish and apply adequate systems and controls to meet regulatory obligations.

Scope A rule should prescribe only what is necessary to achieve the intended outcome.

Clarity Everyone affected by a rule should be able to find it easily, understand it, and apply it practically.

Effective compliance systems recognized, poor ones penalized Outcomes-based regulation focuses our compliance efforts on desired outcomes and behaviours rather than strict adherence to prescribed procedures or forms. Our compliance and enforcement programs should recognize market participants that have strong and effective regulatory compliance systems and controls, and penalize those with weak and ineffective ones, whether or not the participants follow all the detailed requirements.

2 INCORPORATE PLAIN LANGUAGE INTO OUR OPERATIONS

The Commission's plan to engage at least one regulatory partner in a plain language initiative during fiscal 2004-05 was superseded by the more pressing priority of new legislation negotiations with those partners. This meant that our plans had to be stopped and could not be resumed until late in the fiscal year. As a result, we were able to move forward on only one of the four measures we had originally planned, which is described below.

Timing and success measures

Start a plain language partnership initiative with an SRO

We decided that the IDA was the best partner for the first initiative. We held discussions in February 2005 and, by the fiscal year end, the IDA had agreed that their staff in Vancouver and Calgary would participate in training on the use of plain language in written communications. The training is set for May 2005, and will be supported in part by the BCSC Education Fund.

3 USE OUR PUBLIC WEBSITE AS A STRATEGIC TOOL

The internet is our primary channel for communicating with securities industry professionals. It allows us to provide timely information very cost-effectively. The securities industry now relies on the internet to do business.

The internet is also an important channel for communicating with certain types of investors.

The BCSC relies on a number of internet-based national systems, and we have developed an online filing system for BCSC-specific submissions. Our e-services won the Canadian e-Content Award in the legal category from the e-Content Institute. We modified this system during the year to allow us to accept electronic fund transfers for online payment of filing fees.

Timing and success measures

Publish an annual website plan

The main objectives of our 2004 website plan were to redesign our site to update its look, improve access to content, and ease its ongoing maintenance. We completed the new site in October 2004 and planned to launch it at the same time the new legislation was proclaimed. With the deferral of the new legislation, we spent a number of weeks revising the site to reflect our current legislation. The new site was launched mid-December 2004.

We implemented internet-based news feeds (using an internet standard called RSS). These feeds "push" out information about new policies and new regulations to individuals, other websites, and professional news services.

We also completed a number of other significant website changes, including:

- a page dedicated to the mining industry
- amendment histories for our most commonly used policies
- forms in Word format for the industry to use as templates
- guides to popular subjects
- a more powerful and integrated search function

Conduct a focus group of website users

We sent a survey to 1,500 website users in March 2005:

- 221 people responded
- 93% of these people had used our new website
- 75% of these people use the site a few times a month or more
- 68% of these people feel the new site is easier to use

We received feedback primarily from securities professionals, although a few investors also responded. We learned from the survey that most people are able to find the information they are looking for from our website and are able to understand the information. People told us what they usually look for and how they use it. We will use this information in our 2005-06 plans to further improve our public website.

Service and performance measures

It is important that we respond quickly to the public's inquiries and process documents and applications promptly. The following performance measures are the standards we set for ourselves in these important areas of service delivery, and they quantify that aspect of our performance in the past year.

AREA	MEASURE	STANDARD
Contact Centre (for public information and assistance)	Available to handle public inquiries during regular business hours (Monday to Friday, 8:00 am to 4:30 pm).	Goal: in operation 99% of the time Actual: 99%
	Callers to BCSC's main number will wait less than 15 seconds for their call to be answered.	Goal: 95% of the time Actual: 98%
	We will resolve 60% of telephone queries on the spot.	Goal: 60% Actual: 71%
Internet website	Available to the public, 7 days a week, 24 hours a day	Goal: in operation 98% of the time Actual: 99.8%
BCSC e-Services	Available to the public, 7 days a week, 24 hours a day	Goal: in operation 98% of the time Actual: 99.4%
BCSC e-mail system	Available to the public and BCSC staff, 7 days a week, 24 hours a day	Goal: in operation 98% of the time Actual: 99.5%

goal 2: foster a culture of compliance

Effective regulation relies on market participants to comply with both the spirit and the letter of securities rules. *We rely on the firms and individuals registered to sell or advise on securities, or "registrants," to monitor their compliance responsibilities and to do what is right and ethical. Investors rely on companies who issue securities, or "issuers," to comply with their obligations to disclose accurate and timely information to the public. ■ Voluntary compliance and self-regulation are cornerstones of our securities regulatory system. It is critical that we foster an environment in which these can flourish. To do this, we focused our compliance enhancement activities in two areas in the past year. We worked to enhance public company compliance with disclosure requirements, and to improve the self-regulatory process for brokers and advisers.*

STRATEGIES

1 EXPAND OUR DISCLOSURE COMPLIANCE PROGRAM

Our objective for the year was to improve the compliance of public companies with their continuous disclosure obligations, which are designed to ensure that the market is fair and investors can make fully informed decisions. Our previous reviews of issuers' continuous disclosure revealed that the quality of corporate disclosure had generally improved. However, some problems remained, including inadequate management discussion and analysis in quarterly and annual reports, non-compliance with mineral project disclosure standards, and failure to clearly disclose other material information on a timely basis. We addressed these through targeted monitoring, education and compliance initiatives.

Timing and success measures

Coordinated reviews with the CSA

During the year, with our CSA colleagues, we implemented a peer review system for continuous disclosure review comment letters. Our peers found that we concentrated on issues of importance to market participants.

In addition to our work with the CSA's Continuous Disclosure Review Committee, we prepared a focused review of Management Discussion and Analysis (MD&A) in annual financial statement disclosure. In general, we found that while the quality of MD&A had improved significantly over the past several years, improvements were still needed in key areas. The most frequently noted problems in issuers' MD&A included:

- inadequate discussion of variations in quarterly results
- incomplete disclosure of related party transactions
- failure to compare actual results to previously disclosed goals or targets
- insufficient analysis of liquidity and capital resource requirements

We published the results of our review in BC Notice 2005/16 and circulated it to about 1,000 BC-based issuers.

The CSA's Continuous Disclosure Review Committee decided that it was premature to develop success criteria for the national continuous disclosure program this year, since it was put in place in many participating jurisdictions only recently.

Service and performance measures

Since it is important that the BCSC deal with matters quickly, we have service and performance measures that address important areas of continuous disclosure and issuer compliance. We consistently met these standards during the year.

Before September 30, 2004, we used the standards below. Subsequently, we eliminated one of the measures when it produced a flawed result.

AREA	MEASURE	STANDARD
Continuous disclosure	First comment letter	Goal: 80% within 10 days of file opening Actual: 88%
Continuous disclosure	Review completed	Goal: 80% within 3 months of file opening Actual: 100%
Compliance	Case completed	Goal: 80% within 4 months of file opening Actual: 83%

After September 30, 2004, we established more accurate measures for evaluating our performance:

Continuous disclosure	First comment letter – 80% within 10 working days of opening file	88%
Compliance	Cases dealt with – 80% within 4 months of opening file	79%
Financial Reporting	BC prime, MRRS prospectuses – first comment letter – 80% within 10 working days of filing	93%
Exemptions	Complete routine local application – 80% within 20 working days	85%

The success measures proposed in our 2004-07 Service Plan related to the CSA national continuous disclosure program. During the year, the CSA committee decided not to use those measures, after deciding that they were premature and raised issues that required further thought.

2 EDUCATION

Industry education is an important tool to improve compliance and we continue to host workshops and produce publications to help British Columbia companies comply with their disclosure requirements. During the year, we created a page on the BCSC public website dedicated exclusively to mining industry participants.

During 2002-2003, we conducted a study of compliance with National Instrument 43-101 *Standards of Disclosure for Mineral Projects*. This survey identified problem areas that guided our later education efforts. During the year ended March 31, 2005, we conducted over 20 seminars involving more than 1,000 industry participants on improving mineral disclosure for public companies.

Timing and success measures

Obtain feedback from seminar attendees

During the year, we obtained feedback from seminar attendees, which indicated that our courses are meeting their objectives. The feedback also included suggestions for enhancements that we incorporated in later seminars.

Conduct a follow-up review to our NI 43-101 compliance study

We conducted review of compliance with NI 43-101 during the year. We determined, with our CSA colleagues, that in numerous technical areas of disclosure issuers were not in compliance with NI 43-101. The information contained in this review was then used to inform the CSA's re-draft of NI 43-101, which is in progress.

Create a specialized mining page on our website

As mentioned, during the year we created a page on our website devoted to mining. It contains information based on the most frequently asked questions in our ongoing interaction with mining industry participants. This is the only web page for the mining industry provided by a Canadian securities regulator. The page receives 500 visits on average each month.

Review the progress of the industry education initiative to determine its effectiveness

We deferred a formal review of our industry education initiative until the new legislation and revisions to NI 43-101 are in force.

3 COMPLIANCE TOOLS ANALYSIS

An effective compliance program requires regulatory consequences for failure to comply with requirements, so that unacceptable activity can be curtailed or stopped before it escalates into something more detrimental to our markets. Our existing enforcement tools are designed to deal with significant offences and usually involve a lengthy and complex legal process. At the beginning of 2004-05 we planned to use the experience from our disclosure compliance cases to:

- analyze and identify criteria to determine when a more expedient compliance process might be appropriate
- recommend a quick and efficient process that ensures that the party is dealt with fairly, but does not require a formal hearing

Timing and success measures

Complete our report and provide recommendations

As a result of our initial work on this objective during the year, we concluded that current non-hearing "processes," that is, settlements, could not be substantively improved. Instead of focusing on process, we decided to turn our attention to types of cases instead, and did a risk-based analysis of the compliance cases that were emerging. We determined from our review that issuers trading on the Over-the-Counter Bulletin Board (OTCBB) present a unique risk to British Columbia's capital markets. As a result, we included specific steps in our 2005-06 Service Plan to address these risks.

4 SELF-REGULATORY ORGANIZATIONS

We rely on the registrant community to monitor its sales compliance responsibilities and to do what is right and ethical. A BCSC and IDA compliance review demonstrated that registrants do not always comply with their "know your client" and "gatekeeper" obligations. Effective regulation relies on the brokerage industry for front line compliance. To protect investors and the reputation of our markets, we must build an effective "compliance culture" among registrants, based on:

- getting compliance support at the most senior levels in each firm
- doing what is right, not whatever can be done without detection
- following the "spirit" of the rules, not just doing the minimum necessary for technical compliance
- actively cooperating with industry compliance staff, SROs and provincial regulators to identify and resolve failures to meet appropriate standards of conduct

The number of SROs and the character and extent of SRO regulation have changed radically in a relatively short period. Our reliance on SROs to regulate important aspects of market conduct is increasing. Our role has shifted from regulating registrants directly to supervising SROs that regulate registrants, and from having the primary responsibility for one BC-based SRO to sharing the responsibility for the supervision of three national SROs. We also share responsibility for supervising TSX-V, Canada's venture capital stock market.

We must ensure that our reliance on SROs is justified, and that

- appropriate performance measures are set and SROs are held to those standards
- oversight of the SROs is coordinated and consistent within the BCSC and within CSA
- SRO regulation is cost-effective

Our reliance on SROs is a substitute for direct regulation. In any industry, self-regulation has an inherent risk of conflict of interest. To ensure the SRO regulation is effective, the standards for SRO performance and effectiveness should be as stringent as those we set for ourselves, without undermining the benefits of flexibility and industry expertise that SROs can provide. These standards include:

- timeliness in exercising regulatory responsibilities, like investigating complaints or processing registrations
- effectiveness of disciplinary programs

- transparency and fairness of procedures
- plain language in written communication
- cost-effective regulation

Timing and success measures

Publish a report annually that evaluates the regulatory activities of an SRO or exchange

The Western Region of RS was audited by BCSC and ASC staff during November and December 2004. This review was part of a coordinated CSA review of all of RS's activities. A draft report was provided to RS in March 2005. A final consolidated report covering all of RS's operations is being coordinated by participating CSA jurisdictions and should be completed by June 2005.

Continue benchmarking by reviewing and developing appropriate performance standards for the MFDA and RS

Standards for timeliness of regulatory responses were either already in place or implemented by all SROs during 2004, including MFDA and RS. BCSC staff review these standards quarterly and during regulatory audits, such as the recent review of RS. Benchmarking is an ongoing exercise and work continues in the area of file prioritization and risk management in all the SROs. We also made progress in our work with SROs to advance their use of plain language. This is discussed under Goal 1 Strategy 2.

Review the proposed role of TSX-V and ensure gaps do not develop in the regulation of reporting issuers

The coordination between TSX-V and RS in market regulation is essential and, therefore, an ongoing oversight priority. To ensure TSX-V and RS coordinate their activities and that no regulatory gaps occur, BCSC staff meet monthly and quarterly with RS and TSX-V, and review filings and other information.

During the year, we worked with RS to expand the national cease trade order database to include orders against individuals. This was achieved in January 2005. The national cease trade order database now provides a single, publicly accessible national database for all securities regulatory orders.

goal 3: act decisively against misconduct

For market participants who intend to comply with securities laws, simple and clear requirements, education programs, and efforts to foster a culture of compliance are effective regulatory tools. For market participants who have no such intention, the Commission must respond with enforcement action that is prompt and firm, in order to inspire confidence in the fairness and efficiency of our capital markets.

Over the 2004-05 fiscal year, the Enforcement Division focused on three challenges to its ability to act decisively against misconduct. ■ *First,* we would like to detect misconduct earlier. While the Commission has the power to remove wrongdoers from our markets after a hearing, in many cases, the victims' money cannot be recovered. The Commission is trying to establish a systematic function to discover misconduct earlier. ■ *Second,* we need to find ways of getting completed investigations to hearing sooner. There are many complex issues involved and we will address them in the coming year. ■ *Third,* we need to do what we can to ensure that the most serious cases of market fraud receive a criminal justice response. While the Commission has many resources and powerful remedies at its disposal, it does not have the power to impose criminal sanctions on wrongdoers or to prosecute them. Sometimes, only a response from the criminal justice system will send the appropriate message, both to the perpetrator and the marketplace. The federal government has established new IMETs to deal with serious capital market fraud cases. The Commission must use its resources, processes and enforcement tools, to the extent permitted by law, to help the IMETs obtain criminal sanctions in appropriate cases. *We developed three strategies to achieve our goal of acting decisively against misconduct.*

STRATEGIES

1 EARLY DETECTION

Over the 2004-05 fiscal year, the Enforcement Division increased its surveillance and intelligence capability, focusing particularly on the OTCBB, a less regulated market. ■ We provided more information

to IMET and our SROs to further coordinate our intelligence function and increase its effectiveness.

Over the past year, the BCSC Intelligence and Assessment Units carried out various programs to help detect market misconduct earlier. Those programs allowed the units to refer cases of misconduct to the Investigations Branch of the Enforcement Division earlier than would have happened otherwise.

We regularly shared information with other regulatory agencies.

Timing and success measures

Prepare an annual report card on how successful we have been at detecting enforcement cases early; our intelligence function should be the source of at least 10% of the cases we undertake or refer to another agency for action.

The Enforcement Division's Intelligence Unit prepared its first report card. The report card shows that over the past year, the unit opened 210 cases for further action or referral, of which 21 or 10% were sourced in the Intelligence Unit. In other words, Commission staff met their goal of originating a significant portion of the cases identified for further investigation, rather than relying entirely on complaints from the public or referrals from other agencies.

2 FLEXIBLE, EFFECTIVE CASE PROCESSES

Settlements are a useful and necessary tool that allows the Commission to take action in appropriate cases, in a more cost-effective way than would generally be possible if the cases went to a hearing.

Our goal is to settle many more cases than we currently do. Other regulators aim to settle a majority of cases: for example, the SEC aims to settle 90% of the cases it investigates. The OSC has a similar target. In 2004-05, we planned to review our policies and procedures for settling cases without a Commission hearing.

We entered into 21 settlements, versus 36 in the previous year. This was partly due to staffing issues, including the need for two staff members to work full time on a complex hearing, as well as a need to clarify how the Commission wished to achieve settlements.

Timing and success measures

For 90% of cases, meet a time limit of 60 days from the conclusion of an investigation to the issuance of a Notice of Hearing or draft settlement agreement

We met this goal in 76% of all cases. We expect this number to improve as staff adjust their work processes.

Reduce the litigation backlog of cases outside acceptable standards of timing review and assessment to 10% of cases

As of March 31, 2005, only about 1% of all cases in the litigation backlog were outside acceptable standards of timing review and assessment.

3 CRIMINAL DETERRENCE

The BCSC planned to participate in the IMET initiative by seconding one investigator to the local IMET. We also planned to be a part of the management team for the Vancouver-based IMET, allowing us to assist in case selection and to review the IMET initiative's progress.

Our Investigations Department currently has an investigator on secondment to the Vancouver IMET to assist that team in investigating securities wrongdoing.

The Commission's Director of Enforcement attended each meeting of IMET's Joint Management Committee, allowing him to assist in case selection and to review the progress made by IMET.

Timing and success measures

Respond to IMET's requests for assistance in all cases

The BCSC's Investigations Branch responded to all IMET requests in a timely mannet.

Create a plan for cooperating with the local IMET and meet the timing commitments that are within our control

We seconded an investigator to assist in IMET investigations as planned, and the Director of Enforcement attended IMET meetings as a member of the Joint Management Team.

Review the success of the IMET and our participation, and provide a report and recommendations for our further involvement

This report is nearly completed. It has been delayed to give us time to review some recent IMET initiatives before making our recommendations.

goal 4: educate & inform investors and industry

Education has emerged as a fundamental tool for regulators in seeking compliance from industry and protecting the interests of investors. *This is especially the case in BC because our move to a more outcomes-based approach to regulating requires market participants to act in keeping with the spirit and purpose of securities requirements rather than focusing on technicalities. We have stepped up our industry education efforts substantially in the past year to improve market participants' understanding of their responsibilities and help them comply.*

In the increasingly complex and rapid-paced world of retail investing, regulators and law enforcement agencies are less able to protect investors. This means that investors need to rely more on themselves to protect their own interests. The best defense against fraud and unsuitable investments is a skeptical investor who does the appropriate background research and assesses the risk before putting down his or her money. All of our efforts in investor education come down to communicating that message in the most cost-effective way, based on our research, experience, and in-depth knowledge of the perils of risky investing.

STRATEGIES

1 IMPLEMENT A COMPREHENSIVE INDUSTRY EDUCATION PLAN

Our principal objective for the year was to implement a comprehensive industry education plan – the Industry Education and Guidance Project – to teach market participants about the new *Securities Act*.

We started by holding focus groups with a variety of market participants – investment firms, mutual fund dealers, public companies, portfolio managers, investment counsel, lawyers and accountants – to get their feedback on what they thought were the best ways for us to deliver information about the new legislation. This helped us create appropriate education modules on how the new legislation would affect their businesses. In some cases, market participants were also directly involved in the process of developing and presenting the resulting programs.

We spent several months producing a range of seminar presentations and support materials. Some 65 staff from throughout the Commission were involved in the effort. In all, we prepared and delivered 14 tailored and comprehensive programs that were attended by 1,745 industry participants. These included nine different programs for public companies and five for registrants. For public companies, we delivered 25 sessions in Vancouver that were attended by 1,482 participants. For registrants, we delivered 23 sessions that were attended by 263 participants, mainly compliance officers of firms, in Vancouver, Victoria, Kelowna, Montreal and Toronto.

The sessions will be a model for our future industry education initiatives. In conjunction with the launch of this large program, we hosted our annual Capital Ideas conference in September 2004. The event attracted a record audience of 270, primarily executives of BC-based public companies, investment firms and professional firms.

In January 2005, we held our largest mining industry education event to date, attracting an overflow audience of more than 240 people to a full-day session, during the annual *Cordilleran Roundup* mining industry exhibition, to talk with industry about changes to National Instrument 43-101 on continuous disclosure.

Timing and success measures

Adopt industry education plan

The Commission adopted a plan and budget for the new legislation Industry Education and Guidance Project on April 15, 2004. It called for delivery of the industry education program to the industry in the fall of 2004.

Produce industry education modules

Due to negotiations with the IDA regarding the new regulatory regime, final content of the education modules was delayed until September 2004. All materials were completed in time for the program launch on October 4, 2004.

Apply initial success measures

We conducted surveys and focus groups to gauge participants' understanding before and after going through this program. Our evaluation was completed by December 31, 2004.

We received 989 evaluations from participants in the new legislation Industry Education and Guidance Project, a response rate of 57%. Overall, the evaluations indicated that the content and pace were about right, the materials were very helpful, the presenters were good, and the programs did achieve our goal of educating and informing industry.

IMPLEMENT A COMPREHENSIVE INVESTOR EDUCATION PLAN

The BCSC is active in investor education and has undertaken a number of educational initiatives in recent years to increase and improve our efforts. We have committed to expand our activities so we reach more people with our self-protection messages in the most efficient and effective ways. We carefully plan, and vigorously pursue, opportunities that will facilitate the delivery of our programs. Our goals for the past year were to enhance and refine our investor education activities through new initiatives, including research and additional educational partnerships, and a major educational program for secondary school students with the BC Ministry of Education.

Timing and success measures

Refine and formalize our investor education strategy

We continued to implement a wide range of educational programs for investors throughout the year, increasing our activity levels substantially. We delivered a preliminary investor education strategic update to the Executive Director in July 2004. We revised the update during the year, as we adjusted our approach and direction. To organize our programs and focus our efforts we have divided the investing public into four target groups: seniors, youth, ethnic communities, and 35 to 64 year-olds, who form the largest percentage of BC's income-earning population. In addition to program development and delivery, we continued our work to identify the most vulnerable groups within these categories.

Our largest initiative was the Commission's most ambitious education effort to date aimed at youth: a program for BC grade 10 students for the BC Ministry of Education's new Planning 10 course. The program, designed to teach students about saving and investing, was made available to grade 10 teachers throughout the province. We also developed a special website, accessible to both teachers and students, to support our program. Measurements to evaluate the usage and effectiveness of our curriculum and materials are being developed for implementation in fiscal 2005-06. (This and other initiatives are described in more detail in the Education Fund section of this Annual Report.)

During the year we also commissioned our first original investor education research project, the Eron Mortgage Study. This is the largest quantitative research study of the victims of a financial scam that has been done in North America. Undertaken by noted criminologist, Professor Neil Boyd of Simon Fraser University, the independent study will be released in the summer of the 2005-06 fiscal year. This initiative met our objectives of using research to identify target audiences, messages and market problems, and will be used to guide future investor education efforts.

Apply results of initial research projects during the year

Early in the year, we conducted independent research on one of our target investor audiences, the Chinese community. We applied the results of our study in developing a pilot education program through a partnership we formed in November 2004 with Vancouver–based radio station CHMB, one of the largest ethnic stations in Canada. We believe this is the largest Cantonese language program on investor self-protection in North America.

Develop and implement a process for measuring the effects of our educational activities

We began to develop formal measures in October 2004, but this was supplanted by our 2005-06 strategic planning process, in which all areas of the Commission set formal measures to be implemented in fiscal 2005-06. We decided that, in the coming year, we would do more research on our core seminar program and develop measures to help us assess the extent to which investors retain our messages.

Establish baseline measures on investor complaints to the BCSC and its SROs that will help gauge any increase in the awareness of the institutions and educational resources they offer

We set an objective to establish a baseline measurement of complaints to the Commission and its SROs. After reviewing this in more depth, however, we decided that such a measure was subject to so many variables that it could not be relied on as a clear and valid indication of the effectiveness of investor education efforts.

3 DEVELOP PARTNERSHIPS BASED ON OUR ESTABLISHED CRITERIA TO FURTHER OUR EDUCATIONAL EFFORTS

The goal of BCSC's investor education partnership initiative is to help us deliver our education programs cost-effectively by joining forces with respected industry and community agencies that give us access to large numbers of BC investors in our target audiences.

The Commission has established strict partnership criteria to ensure we form educational alliances with organizations that share our goals and values, and have the financial resources and capabilities to fulfill commitments to an educational program.

We select partners for specific programs on the basis of their experience, cost-effectiveness and ability to help us reach our program objectives. Our education partnerships range from one-time events and pilot projects to collaborations that last for many years.

Timing and success measures

Establish at least four new organizational partnerships

Using our partnership criteria, the BCSC actively pursued investor education partnerships over the year that would give us better access to investors in our target audiences, and increase the opportunities to deliver our message in a cost-efficient way.

By mid-year, we had established programming partnerships with two major community service clubs – Rotary and PROBUS. We delivered almost 40 seminars to these organizations and plan to meet or exceed this number in the next fiscal year.

We also recognized that strengthening our relationships with criminal justice partners would help both the public and the enforcement community. As a result, we sought to establish an educational partnership with the Vancouver IMET. In November 2004, IMET agreed to work with us to present investor protection seminars and to participate in consumer trade shows with Commission staff. The partnership's goal is to capitalize on the RCMP's extensive connections with local communities to raise public awareness of how the regulatory and criminal justice systems work together to combat financial crime.

After attending the Human Resources Managers Association annual general meeting and trade show in June 2004, the BCSC actively promoted investor seminars for pre-retirees to human resources managers in large firms and government. By December 2004, we had programmed an initial six seminars for these audiences, with more planned.

Stage a pilot program for disseminating investor education information through one or more SRO member firms

We moved forward on an initiative to work with a member of a self-regulatory organization in investor education. Research into investor behaviour repeatedly indicates that investors prefer to receive investor education information from their financial advisers over other sources. So far as we are aware, this is the first partnership of its kind between an investment firm and a Canadian securities regulator.

Odlum Brown, a Vancouver-based investment firm with over 25,000 clients and a strong compliance record, agreed to undertake a pilot distribution of BCSC investor alert publications through a special direct mailing. In March 2005, 25,000 copies of our publication warning investors about affinity fraud were mailed to all of the firm's clients.

An Odlum Brown website poll found that 65% of respondents were not aware of affinity frauds before receiving the publication, 86% found the information useful, and 96% would welcome more information of the same kind.

If successful, continue with the partnership program next year

Given the positive response to the Odlum Brown pilot program, we will be pursuing this initiative further in fiscal 2005-06. It is a cost-effective way for us to reach investors with important self-protection information through a source they trust. Odlum Brown has indicated it would work

with us to get other investment firms to follow suit by approaching them though the IDA. This could increase the program's reach exponentially.

Double the number of seminars and other activities in conjunction with partners

In fiscal 2003-04, the BCSC delivered 48 public investor education seminars, with 90% of those attending expressing a high level of satisfaction with seminar content in our follow-up surveying.

Through the effective use of partnerships and more targeted, consumer-oriented marketing, we exceeded our objective of doubling our output during 2004-05, delivering 97 seminars and increasing average attendance by 20%. We estimate that we increased our reach by about 1,500 people to more than 5,000 investors. Additionally, we distributed over 2,000 investor education kits through exhibitions and in response to direct consumer requests. We also dramatically increased other investor education activities in the year. The BCSC staffed booths at 11 major consumer trade shows and events, allowing us to make direct contact with large numbers of investors to promote our messages and programs.

We estimate that through our combined programs of seminars, distribution of publications to targeted audiences, and other activities during the past year, we directly reached almost 40,000 investors with our messages and materials, not including those listening to radio and television programs on investor issues featuring Commission staff and initiatives.

Regulatory requirements are effective only if they are enforced. We use other tools, like education and compliance examinations, to encourage market participants to understand and comply with regulatory standards. But, ultimately, the most powerful tool we have is a credible enforcement program to deter inappropriate and illegal market conduct, and send a strong message to the market and the public. Enforcing the *Securities Act* is one of the most important ways we can fulfill our mission to protect investors and ensure fair and efficient capital markets.

how we identify and investigate possible misconduct

The BCSC's process for dealing with misconduct starts with the Intelligence and Assessment Branch of our Enforcement Division. This team receives complaints and referrals from investors, securities industry participants, other regulatory and enforcement agencies, and BCSC divisions that monitor market conduct and disclosure. Last year, this team handled 232 complaints. Many of these represented multiple violations, including:

100 related to unregistered activity ■ 79 related to illegal sales of securities ■ 57 related to fraud ■ 55 related to registrant misconduct ■ 52 involving civil disputes outside our mandate.

Our Intelligence and Assessment Branch handles files in different ways, depending on the circumstances. It can pass a file to another regulator or law enforcement agency, resolve it through staff action, like a caution letter, or refer it to our Investigation Branch. Sometimes, the branch closes files without taking action if, for example, we decide it is not in the public interest to pursue the matter. The branch might also refer a complaint to the BCSC's Capital Markets Regulation Division or Corporate Finance Division if it involves a registrant or public company.

legal procedures for handling cases of misconduct

If a BCSC investigation produces appropriate evidence to support allegations of misconduct, the Commission's Executive Director can initiate an enforcement proceeding by issuing a notice of hearing. In this process, a panel of commissioners conducts a hearing to consider the allegations and any enforcement orders requested by staff. Alternatively, a person against whom allegations are made can agree to a negotiated settlement with the Executive Director by admitting misconduct and consenting to an enforcement order, a financial payment and, possibly, other appropriate remedies. All notices of hearing, orders and Commission decisions and settlements are published on the BCSC website. ■ A person against whom the Commission makes a decision can ask the BC Court of Appeal to review it. That party or the BCSC can also ask the Supreme Court of Canada to review a decision of the appeal court.

enforcement actions

Since our last annual report, the BCSC has: *issued 16 notices of hearing* ■ *concluded 30 settlement agreements* ■ *run about 20 other hearings, excluding set date hearings and other interim matters.* The following are summaries of major cases dealt with by the BCSC between June 2004 and June 2005:

SETTLEMENTS

Glen Harvey Harper

Harper was the founder of Golden Rule Resources Inc. In March 1999, Harper was charged under the Ontario *Securities Act* with illegal insider trading. In July 2000, following a trial, he was found guilty. Harper was sentenced to six months in prison and fined $2 million.

In April 2004, the OSC prohibited Harper for the next 15 years from buying and selling securities (with limited exceptions) and from acting as a director or officer of any public company. In June, the ASC made substantially the same orders.

In a settlement entered into with the BCSC in July 2004, Harper agreed to the same market restrictions in BC as he is under in Ontario and Alberta.

Douglas Laurence Mason

Mason was an officer and director of Clearly Canadian Beverage Corp., Consolidated Venturex Holdings Ltd., SWI Steelworks Inc. (formerly ESC Envirotech Systems Corp.), Waterfront Capital Corp., and Columbia Yukon Explorations Inc. The company shares were listed for trading on the Vancouver Stock Exchange (VSE, now the TSX-V). Mason was an insider of all of the companies.

Between December 1994 and 2000, Mason failed to file insider reports for 67 trades in securities of the companies. He had directed the trustee of an offshore trust to make the trades. Most took place on the VSE and involved the Trustee acquiring shares that Mason was, at the same time, selling into the market from his personal holdings. This created a misleading appearance of trading activity on the stock exchange, contrary to the public interest.

In 1996, Mason was a control person of ESC Envirotech and sold 631,500 shares without filing the notices and reports that control persons are required to file under securities laws.

Mason agreed in a settlement with the BCSC to pay $250,000, of which $50,000 represents costs of the investigation. He can engage in some limited financing activities and carry out securities trading within certain conditions. Mason cannot serve as an officer or director nor can he engage in investor relations activities for 12 months, except for some non-public companies and two public companies in which he is already currently involved: Clearly Canadian and Columbia Yukon.

Hung Chi (Patrick) Woo

In 1999, Yeh & Woo General Partner Inc. created Ascent Investment Capital Limited Partnership. Woo was the chief executive officer and a director of Yeh & Woo. In December 1999, Ascent raised US$870,000 from eight investors. Until December 2001, Yeh & Woo managed the assets. Woo directed the trading without registration in contravention of the *Securities Act*. The investors lost between US$600,000 and US$700,000 while Woo received a management fee of US$71,800.

In November and December 2001, Woo manipulated the stock market in violation of the *Securities Act*. He conducted 40 "match trades" in which he coordinated sell and buy orders for securities between his personal trading account and the Ascent account. By pairing the sell and buy orders, Woo caused the Ascent account to buy securities at a higher price than the market price. In doing so, Woo pocketed US$14,000 at the expense of Ascent and its investors.

In a settlement with the BCSC, Woo agreed to pay $40,000. For 10 years, Woo may not trade, act as a director or officer (except an issuer owned by Woo or his family) or engage in investor relations activities.

Johnathan Lam Wai Tsang, Selena Ching Wan Tsang and RAB Energy Corp. (I) Limited

In October 2001, Johnathan Lam Wai Tsang and Selena Ching Wan Tsang were the controlling shareholders and directors of RAB Energy Corp. (I) Limited, a Hong Kong-incorporated company with its head office in Vancouver. At the time, Johnathan was registered under the *Securities Act* to sell mutual

funds and Selena was a former registrant under the Act. During the three-month period ending January 30, 2002, the Tsangs and RAB illegally distributed RAB securities to 39 investors, including 31 from BC, raising US$676,100.

Under a settlement with the BCSC, the Tsangs agreed to pay $10,000 to the BCSC, with $1,000 representing investigation costs. They are barred from trading, acting as directors or officers and engaging in any investor relations activities for at least seven years. The BCSC also permanently cease-traded RAB.

Grant Claude Cramer

Cramer was a registered representative and director of IDF Financial Services Incorporated, a securities dealer in northern BC. Over three years, Cramer breached securities laws when he illegally sold securities to clients, failed to advise clients that some securities were not suitable for them, and failed to deal with his clients fairly, honestly and in good faith. Cramer, who was also a part owner of IDF and the chair of the firm's due diligence committee, stopped working at IDF in February 2001 and surrendered his registration to sell securities.

In a settlement with the BCSC, Cramer agreed to pay the BCSC $15,000 and not to apply for registration under the *Securities Act* until August 2009. He is banned from buying or selling securities (except in his personal account), acting as an officer or director (except for a company wholly owned by his family) and engaging in investor relations activities until August 2009.

Adrian Mastracci and KCM Wealth Management Inc.

Mastracci is the principal of KCM Wealth Management Inc. Both Mastracci and the firm are registered under the securities legislation. In 2002 and 2003, KCM contravened securities legislation when the firm did not keep proper business records, have the required capital, file annual audited financial statements, and subordinate Mastracci's loan to claims of clients and creditors.

Under a settlement with the BCSC, Mastracci agreed to pay $5,000 and KCM was reprimanded.

Christopher Fung

Fung was the president, a director and the controlling shareholder of GHG Resources Limited, a TSX-V listed company. In 2003 and 2004, Fung contravened the *Securities Act* when he illegally sold 121,500 shares of GHG Resources on the exchange without filing a prospectus or using an exemption, illegally sold 600,000 shares of GHG Resources on the exchange without relying on the control person exemption properly, and did not file insider reports for his purchases and sales of GHG Resources shares.

Under a settlement with the BCSC, Fung agreed to pay $9,000 and is prohibited from being an officer or director of any public company, except GHG Resources, for at least one year.

William Ronald Moll

In September 1999, Moll was a director of 592087 BC Ltd., a company that carried on business as North American Marketing and North American Enterprises. In spring of 2001, he was a director of Sniper Sports Ltd., a company supposedly in the business of manufacturing and selling hockey sticks.

Moll illegally sold about $50,000 worth of securities of North American and Sniper Sports to five BC investors without registration or a prospectus. He also defrauded them by telling them that North American had the exclusive rights to manufacture, market and distribute a tire-cleaning formula called "Tire-Glo" and "Tire-Tux" and that the companies' shares would be listed on a stock exchange.

In a settlement with the BCSC, Moll agreed to pay $10,000 and he is barred from buying or selling securities, acting as a director or officer, and engaging in investor relations activities for 10 years.

Jarislowsky, Fraser Limited

Jarislowsky, Fraser Limited, an investment counsel and portfolio manager with offices in Montreal, Toronto and Calgary advised as many as 43 BC clients over 13 years without registration. On August 18, 2004, the firm registered under the *Securities Act* as a portfolio manager and investment counsel.

Under a settlement with the BCSC, the firm paid $235,850, a sum that includes registration fees that it would have had to pay to operate in BC had it been registered.

Canadian Metals Exploration Ltd. (now Hard Creek Nickel Corp.), Yvonne Cole, Barry Whelan and Stewart Jackson

Canadian Metals Exploration Ltd. (now Hard Creek Nickel Corp.), a TSX-V listed company, has an exploration-stage nickel property in northern BC called the Turnagain Nickel Project. During the year ending July 2003, Hard Creek breached securities requirements when it made disclosure in its annual information form and on its website that did not comply with mining disclosure standards, and made false and misleading statements in records filed with the BCSC.

Hard Creek did this despite warnings from BCSC staff and despite telling staff it would correct its disclosure during a previous disclosure review.

In the 10 months ending in May 2003, Hard Creek also sold securities to 85 investors on the basis that the securities would have a four-month hold period, when it was only eligible to distribute securities with a 12-month hold.

Cole, Whelan and Jackson were directors of Hard Creek. Cole had no formal training in geology, mining engineering or accounting and worked as an office administrator. Whelan relied on Jackson for the content of the company's mining technical disclosure. Jackson admitted he was the key person responsible for drafting and reviewing the company's mining technical disclosure from July 2002 to July 2003. They breached securities legislation by failing to ensure the company's disclosure met regulatory requirements.

In three settlements with the BCSC, Hard Creek, Cole, Whelan and Jackson agreed to pay $20,000, $2,500, $5,000 and $10,000, respectively. Hard Creek agreed that Whelan, the company's chief operating officer, would not serve as a director of the company, or prepare or disseminate Hard Creek's disclosure required under securities legislation (Jackson and Cole had already resigned at the time of the settlement with the company). Cole agreed to pass required training before acting as an officer or director of a public company. Whelan agreed not to prepare or disseminate mining disclosure required under securities legislation for two years without

supervision, and cannot act as a director of a public company until he successfully completes a course on the duties and responsibilities of directors and officers. Jackson agreed not to prepare or disseminate mining disclosure required under securities legislation for three years without supervision, and cannot act as a director of a public company until he successfully completes a course on the duties and responsibilities of directors and officers.

TD Securities Inc., George Melvin Grafton, Grafton Global Management Ltd. and Valley Mortgage and Investment Company Ltd.

In March 1996, Grafton ran Grafton Global, which made all client investments through TD Securities. Ninety Grafton Global clients invested over $4 million with Valley Mortgage. TD Securities failed to ensure that the documentation for the investments was properly completed. Then, TD Securities wrongly described the investments in the client account statements. In March 1997, TD Securities purchased Grafton Global, and Grafton joined TD Securities. In the following months, seven of Grafton's clients invested $450,000 in mortgages with Valley Mortgage. TD Securities did not determine whether the investments were suitable for all the clients. The mortgages were secured by a property being developed in Kelowna, BC. In 1999, the developers defaulted on the mortgages. In the client account statements, TD Securities continued to list the value of the investments at the purchase price.

In October and December 2004, the BCSC entered into settlements with TD Securities and Grafton, Grafton Global and Valley Mortgage. TD Securities paid $50,000 for acting contrary to the public interest. The BCSC acknowledged that TD Securities voluntarily settled with the investors and revised its compliance procedures. The BCSC (a) with exceptions, permanently banned Grafton from buying and selling securities, being a director or officer and engaging in investor relations activities and (b) permanently cease traded the securities of Grafton Global and Valley Mortgage.

Donald Nicholson

Nicholson was a consultant, director, president, chief operating and chief financial officer of China Diamond Corp. (formerly Pan Asia Mining Corp.), a TSX-V listed mining company. The company filed its annual information form under securities legislation. He knew it contained misleading information including forecasts of production from the company's diamond operations, forecasts of average selling value for rough diamonds from its mine, as well as forecasts of gross profits and projected rates of return.

In a settlement with the BCSC, Nicholson agreed to pay $15,000 and comply with the *Securities Act*.

Forex Capital Markets, LLC

Forex, a New York-based foreign exchange trading firm, opened and serviced accounts for 369 BC residents without being registered. Forex provided services that allowed clients to speculate on changes in the exchange rate between two currencies.

Forex agreed under a settlement to pay $142,500 to the BCSC. This amount includes registration fees that it would have had to pay to operate in BC since April 2000 had it been registered. Forex agreed not to accept new clients from BC until it has registered as an exchange contracts dealer. It also agreed to inform clients in BC that it is not registered, that its disclosure may not follow securities legislation, and that it may be difficult to take legal action against Forex because it is not a Canadian company.

Daniel Brennan Matthews and Peter William Dunfield

In 2000, Matthews was the president and a director of Jalna Resources Ltd., a company listed on the TSX-V. Dunfield was a director. Matthews caused Jalna to enter into an investor relations contract with Incite Marketing Group Inc., a company he owned. Dunfield signed one of the cheques to Incite. The contract was a material change for Jalna. Jalna, Matthews and Dunfield did not disclose the contract in filings with the exchange or the Commission or later in its financial statements.

In settlements with the BCSC, Matthews agreed to pay $25,000 and Dunfield agreed to pay $10,000. The BCSC ordered Matthews not to act as a director or officer or engage in investor relations activities for five years, with exceptions. Before returning to the industry, Matthews must pass required training for directors and officers. The BCSC barred Dunfield from being a director or officer and engaging in investor relations for at least three years.

Mark Edward Valentine

In December 2004, OSC staff concluded a settlement with Valentine for his conduct as chairman, a director, and the largest shareholder of Thomson Kernaghan & Co. Ltd., which was contrary to Ontario securities law or contrary to the public interest. The OSC ordered that Valentine's registration under Ontario securities law be terminated; that the exemptions in Ontario securities law not apply to him for 15 years (except that after 5 years, he may trade in certain specified securities); that he be permanently prohibited from acting as a director or officer; and that he pay $100,000 in costs. Valentine also agreed to consent to an order made by any provincial or territorial securities regulatory authority in Canada containing any or all of these prohibitions; that he would never re-apply for registration or recognition of any kind under Ontario securities law or any other Canadian securities legislation; and that he would never seek membership in, or approval in any capacity from, the IDA.

On March 7, 2005, the BCSC issued reciprocal orders by consent.

James Harvey Cameron

Between May 2002 and August 2003, Venture Trading Inc., an Alberta company, illegally raised $143,500 from eight BC residents without registration or a prospectus. The company also maintained a password-protected website that shareholders could access, on which Venture Trading gave false information about the monthly return of its preferred shares.

Cameron, as Venture Trading's controlling shareholder, president, secretary and only director, was responsible for the company's illegal distribution and website misrepresentation to shareholders.

In a settlement with the BCSC, Cameron agreed to pay $10,000. The BCSC barred him from trading securities, acting as a director or officer and engaging in any investor relations activities for four years. Venture Trading was also prohibited from trading securities for four years.

David Lynn Hunter

Hunter was a director of Nano World Projects Corp., a Delaware corporation that was quoted on the OTCBB. Hunter admitted that he reviewed and approved a news release that was publicly issued on April 20, 2000 that stated Nano World had negotiated a US$15million private financing deal with Voyager Securities Ltd. At the time of the news release, Hunter ought to have known that Voyager had only agreed to solicit subscriptions for the financing and not agreed to provide the financing as the release falsely stated. He admitted that his conduct was contrary to the public interest.

The BCSC barred Hunter from being a director or officer of any issuer for five years except in limited circumstances.

Jesus Ricafort Martinez

Martinez, the president, chief executive officer or director of TSX-V listed Golden Fortune Investments, admitted that he failed to disclose 163 transactions that totalled over $1.8 million and 2.1 million Golden Fortune shares in four reports that covered trading activity for various time periods from July 1999 to November 2002.

Martinez agreed to pay $10,000. The BCSC ordered him to resign as a director or officer for 18 months and complete a course on the duties of directors and officers. He can only trade securities through a single account in his name with a registered dealer. He must also file insider reports to correct the omissions in the previous four insider reports and pay the applicable late filing fees.

Michael Ernst Ruge and Chivas Hedge Fund Ltd.

Ruge was the sole shareholder, director and officer of Chivas Hedge Fund Ltd. Between Dec. 18, 2001 to Feb. 6, 2003, Ruge and the company illegally sold more than $1.5 million Chivas Growth Fund Limited Partnership units to 50 BC, Alberta, and Ontario investors without a prospectus or registration.

Ruge admitted to perpetrating fraud against investors when he placed more than $780,000 of the money with himself or affiliated companies and individuals. Almost none of the money raised by Ruge was used as contemplated by the offering memorandum, which contained misrepresentations. Ruge also made misrepresentations personally and on a website. About $240,000 was refunded to investors, but there is little prospect of additional recovery and the investors have lost most of their money.

Under a settlement, Ruge agreed to pay $150,000. The BCSC also ordered that he cannot trade securities, act as an officer or director of any issuer, nor engage in investor relations activities for 25 years, except in limited circumstances. Under the settlement, the BCSC also ordered the Chivas Hedge Fund Ltd. to cease trading in securities for 25 years.

Wolverton Securities Ltd., Brent Wolverton, Timothy Fernback and William Massey

Wolverton, a Vancouver investment dealer was the agent in a planned public offering of 1.5-million Cinema Internet Networks Inc. shares in 2000. Brent Wolverton, president of Wolverton Securities, failed to properly supervise his employees to ensure compliance with securities laws and exchange regulatory requirements in connection with the Cinema financing deal. Fernback, who was manager of corporate finance at Wolverton Securities, and William Massey, president and a director of Cinema, admitted that they ought to have known that certain trading in Cinema shares could create an artificial price for the company's shares.

In settlement with the BCSC, Wolverton Securities, Wolverton, Fernback and Massey agreed to pay $60,000, $30,000, $20,000 and $5,000, respectively.

HEARINGS

Timothy Fernback, Brent Wolverton, Wolverton Securities Ltd., and William Massey

Fernback, Wolverton, Wolverton Securities Ltd., and Massey faced allegations that they participated in a scheme to manipulate the share price of Cinema Internet Networks Inc. Prior to the hearing, they applied for increased disclosure of materials in the possession of the Executive Director.

The Commission panel expanded the standard of disclosure that the Executive Director must make to respondents. As a result of this decision, the appropriate standard is now that set out in R. v. Stinchcombe, a 1991 decision of the Supreme Court of Canada.

Richard John Smith and Synlan Securities Corp.

Smith and Synlan Securities Corp., of which Smith serves as president, director, secretary and treasurer, formed three partnerships to raise money for residential developments in Arizona and Florida and sold partnership units to 14 BC investors. The homes were never built and the partnerships did not return the funds they collected from investors, who lost about $600,000.

Smith led investors to believe that promissory notes they signed (as much as $135,000) would be paid off by the returns from the investment. The $25,000 each investor paid fell well short of the $97,000 minimum investment required under securities legislation. In December 1997, Smith pleaded guilty to 22 counts of theft over $5,000 and 10 counts of fraud and was sentenced by Ontario provincial court to two years less a day in prison for a scheme involving sales of limited partnership units in a proposed downtown Toronto residential real estate development. Thirty-one investors lost $1.8 million. Smith also did not disclose the charges or convictions to the OSC in 1997 and 1998, which subsequently permanently banned him and Synlan from the Ontario capital markets.

The Commission panel ordered Smith and Synlan to pay $750,000 in administrative penalties, permanently banned them from the capital markets and permanently prohibited Smith from acting as an officer or director and from engaging in investor relations activities.

Gordon Howard Callies

Callies, a director of Cambria Bancorp Ltd., illegally sold securities of Cambria to 14 BC investors, defrauded an 86-year-old woman of $30,000, and failed to fulfil his duty of care as a director under company law.

The Commission panel ordered Callies to pay a $125,000 administrative penalty, banned him from BC securities markets, and prohibited him from acting as a director or officer and engaging in any investor relations activities for 25 years.

Edward Andrew Durante (also known as Ed Simmons), Berkshire Capital Partners, Inc., Commonwealth Associates, Ltd., Dottenhoff Financial, Ltd. and Galton Scott & Golett Inc. and Gillian Hobson

Durante is a stock promoter and former registered securities professional from the state of New York. With the help of Hobson, he manipulated the shares of three companies listed on the OTCBB quotation system. Hobson traded the securities through accounts held by offshore corporations (Berkshire, Commonwealth, Dottenhoff, and Galton) at Union Securities Ltd., a Vancouver investment dealer. Durante's manipulations netted illegal profits of US$36 million.

The Commission panel (a) permanently banned Durante from buying and selling securities, being a director or officer and engaging in investor relations activities and ordered him to pay the maximum penalty for individuals of $250,000 and costs, (b) permanently cease traded the securities of Berkshire, Commonwealth, Dottenhoff, and Galton, and ordered each to pay the maximum administrative penalty for corporations of $500,000 and costs, and (c) for five years banned Hobson from buying and selling securities, being a director or officer and engaging in investor relations activities and ordered her to pay costs.

Carl Glenn Anderson and Douglas Victor Montaldi

Anderson and Montaldi ran a loan company in Burns Lake. They raised money by selling promissory notes to investors. The company's operations ended when the BC Financial Institutions Commission froze its bank accounts and ordered it to cease carrying on business at the end of April 2002. By then, the company had raised $41 million from about 450 investors, nearly all of them residents of the Burns Lake area. The BCSC found that they illegally sold the promissory notes and in doing so made misrepresentations and committed fraud and acted contrary to the public interest for failing to fulfill their directors and officers duties.

In the Spring of 2003, the Commission panel ordered Anderson and Montaldi (a) with exceptions, for 12 years not to buy or sell securities, act as directors or officers or engage in investor relations activities and (b) to each pay administrative penalties of $200,000 and costs. They appealed and the appeal court overturned the findings of misrepresentation and fraud. On December 7, 2004, the BCSC reduced its ban to six years and its administrative penalties to $100,000.

QuickEx Inc., David J. Rogerson, Gregory Yanke, Stephen Spink and Paul Trennum

QuickEx Inc., a BC-based company quoted on the Pink Sheets in the United States, operated automated foreign exchange machines in British Columbia.

In a notice of hearing issued on October 19, 2004, BCSC staff made a temporary cease-trade order against the shares of QuickEx and trading bans against the company's senior management – David J. Rogerson, Gregory Yanke, Stephen Spink and Paul Trennum. The four were also prohibited from acting as directors or officers and from engaging in investor relations activities. The notice alleged that they breached securities legislation and acted contrary to the public interest by misrepresenting the company's operations and making unsupported financial projections.

Following a hearing during which BCSC staff put forward all their evidence, the Commission panel declined to extend the temporary orders. The respondents applied for dismissal of the allegations against them in the BCSC notice of hearing. The BCSC found insufficient evidence to prove the allegations and consequently made no orders under the *Securities Act* against the respondents.

LOM (Holdings) Limited, LOM Securities (Bahamas) Limited, LOM Securities (Bermuda) Limited, LOM Securities (Cayman) Limited, Lines Overseas Management Limited, Donald P. Lines, Brian N. Lines, Scott G. S. Lines, Malcolm Mosely, David McNay, and J. Scott Hill

In a notice of hearing, BCSC staff alleged the respondents acted contrary to the public interest by not disclosing the identities of beneficial owners of securities traded by the offshore companies.

Using powers under the *Securities Act*, BCSC staff demanded the respondents disclose the beneficial ownership of securities purchased and sold through accounts at BC investment dealers in the shares of a TSX-V listed company.

The respondents did not respond directly to the staff demand, citing the secrecy laws in Bermuda, the Bahamas and the Cayman Islands. However, BCSC staff did receive information, with LOM's cooperation, through the regulators in those jurisdictions. At the time of the hearing, staff had not yet determined whether the information it received matched the information it demanded.

The Commission panel dismissed the allegations and confirmed that staff's remedy in these circumstances is to apply to court for a contempt order.

Carey Brian Dennis

Dennis, of Salmon Arm, was registered as a mutual fund salesman from September 1993 to July 1997. He worked at Mutual Investco Inc., a subsidiary of Mutual Life (later known as Clarica Life Assurance Company). From 1993 to 1997, Dennis intentionally misled seven BC clients about what he had done with their investments. Dennis told the clients he invested their money in a mortgage or other mutual fund with Mutual Life, when in fact, he used their money to invest in mortgages or a mortgage pool in his own name or for other business or personal purposes. In total, the clients lost close to $250,000.

On October 10, 2003, Dennis was found guilty of fraud and theft in the Supreme Court of British Columbia, and later sentenced to two years and three months in prison and ordered to make restitution. The BCSC adopted the court's findings of fact and law, finding that Dennis committed fraud and failed to deal fairly, honestly, and in good faith with clients.

The Commission panel banned Dennis for 30 years from buying and selling securities, being a director or officer, and engaging in investor relations activities, and ordered him to pay a $250,000 penalty and costs of $21,400.

Ronald Stephen Barker and Double Eagle Investments Inc.

Barker was an insurance agent in Kamloops and a broker registered under the *Securities Act* to sell only mutual funds. During six years ending in August 2002, Barker raised $2.3 million from 57 clients for his company, Double Eagle Investments Inc., and generally did not provide investors with written materials, said nothing about risk, and promised high returns. Near the end, an elderly client invested $80,000 when Barker knew Double Eagle was insolvent. Barker defrauded clients, made misrepresentations, sold securities without a prospectus and advised investors without registration.

The BCSC (a) with exceptions, permanently banned Barker from buying and selling securities, being a director or officer and engaging in investor relations activities and ordered him to pay the maximum penalty for individuals of $250,000 and costs, and (b) permanently cease traded the securities of Double Eagle and ordered it to pay costs.

Paul Larry O'Connor

O'Connor lives in Parksville, BC and was an insurance agent and a broker registered under the *Securities Act* to sell only mutual funds. During the three years ending February 2001, O'Connor defrauded three elderly clients of $163,000.

The Commission panel permanently banned O'Connor from buying and selling securities, being a director or officer and engaging in investor relations activities and ordered him to pay a $200,000 penalty and costs of $48,368.

Eric Wayne Nelson

Nelson breached securities legislation when he solicited $550,000 from 10 BC residents for investment in the stock market without being registered as an adviser. Nelson received most of the money from an elderly pensioner and a disabled worker. Almost all the money was lost.

On March 31, 2005, the Commission panel ordered Nelson (a) for 10 years not to buy or sell securities, act as a director or officer or engage in investor relations activities, and (b) to pay a $50,000 penalty and costs.

Steven Peter Hughes

Hughes was a broker registered under the *Securities Act* to sell only mutual funds. During the five years ending May 2001, he defrauded Kamloops, BC senior citizens of $1.4 million. He sold them what he called high-yield, low-risk securities by promising a two-year return of 25%. While defrauding clients, Hughes made misrepresentations, sold securities without a prospectus and advised investors without registration.

The Commission panel permanently banned Hughes from buying and selling securities, being a director or officer and engaging in investor relations activities, and ordered him to pay the maximum penalty for individuals of $250,000 and costs.

COURT CASES

Arthur Smolensky

In September 2002, the BCSC ordered a hearing into allegations that Arthur Smolensky had engaged in improper insider trading in shares of a company called Trooper Technologies Inc. on the VSE in 1997. Smolensky settled with the exchange in April 2001. The Commission hearing has not yet taken place because of Smolensky's subsequent court challenges.

Smolensky contends that a confidentiality provision in the *Securities Act* curtails his access to potential witnesses and information he needs to defend himself against the Commission's allegations. On this basis, he asked the BC Court of Appeal to find that the Act violates his constitutional rights. On February 20, 2004, the appeal court dismissed Smolensky's challenge. The court found that, despite the fact that the Act is silent on disclosure and access interests, the BCSC's Executive Director had made extensive disclosure to Smolensky's lawyer. The court ruled that Smolenksy's Charter of Rights challenge was premature because there has been no Commission hearing that provides the court with a factual basis and context to consider the issues. The court declined to answer the constitutional question.

Smolensky sought leave to appeal the BC Court of Appeal's decision to the Supreme Court of Canada. The Supreme Court of Canada denied his application.

Research Capital Corp.

Research Capital Corporation is an investment dealer registered with the BCSC that inadvertently contravened a cease trade order issued by BCSC staff. The BCSC reprimanded Research Capital, ordered that its registration was conditional on preparing and filing a report on changes it would make to its compliance systems to prevent similar future breaches, and required it to pay an administrative penalty of $40,000 and the costs of the hearing.

Research Capital applied for leave to appeal the penalty to the BC Court of Appeal. The court denied the application on the basis that Research Capital had adequate notice that the Commission panel might impose sanctions beyond the administrative penalty. The court found that the prospects of success were slender and that the case raised no issues of general importance.

Jesse Hogan

Hogan manipulated shares in five junior technology firms quoted on the OTCBB. For each company, he bought shares, posted hundreds of false messages on internet bulletin boards, waited for the share price to rise on the basis of this false information, and sold his shares at a profit. Hogan's total profit from the manipulations was US$41,752.

In September 2002, the Commission panel banned Jesse Hogan from the BC securities markets for 10 years and ordered him to pay a $25,000 administrative penalty for market manipulation. Following the Commission panel decision, Hogan consented to disgorge his profit under a court order and agreed to take a course in business ethics.

Hogan appealed the administrative penalty saying it was not reasonable and failed to take adequate account of his ability to pay. In January 2005, the BC Court of Appeal dismissed Hogan's appeal. The court held that it is not necessary for the amount of the penalty to be commensurate with the respondent's ability to pay, and that "administrative penalties in each case have to be viewed in light of the overall penalties imposed, the particular circumstances of the conduct involved, and the Commission's reasonable perception of what is required in the public interest at the time the penalty is imposed."

John Walter Scott Roeder

In 1995, the BCSC imposed a 17-year market ban on Roeder, the president of VSE-listed Keywest Resources Ltd., after it found that:

- Roeder "managed Keywest as his own company and casually shuffled payments back and forth among his personal accounts and those of Keywest"
- He failed to disclose material changes and issued false and misleading new releases, and
- After arranging a sale of control of Keywest and receiving the proceeds, "despite the fact that he was still president and a director of Keywest, Roeder effectively abandoned Keywest."

In 2000, Roeder applied to the BCSC to have the 1995 orders revoked, alleging that BCSC staff counsel acted with a conflict of interest. On May 20, 2003, the Commission panel heard Roeder's application and dismissed it on the basis of unjustified delay. The Commission panel did not consider the merits of the conflict of interest allegations.

Roeder appealed to the BC Court of Appeal and on April 4, 2005, in a unanimous judgment, the court dismissed the appeal, finding that the Commission panel acted reasonably in dismissing Roeder's application.

BCSC education fund

The BCSC Education Fund was established in 1991 to receive revenue from administrative penalties and settlements imposed on market participants who violate securities regulations. Under the *Securities Act*, these monies "may be spent only for the purpose of educating securities market participants and members of the public about investing, financial matters or the operation or regulation of securities markets." We have a well-defined protocol for approving educational projects and programs for funding, and for selecting educational partners, which considers among other factors:

1. the need for a project
2. a project's design and success measures
3. the proposer's background and experience delivering educational programs
4. the degree to which a project's goals align with the Commission's strategic plan

We are active in many of the education projects we fund, For example, our Staff Ambassadors – 106 BCSC employees who are trained in public speaking – deliver seminars and other presentations on a volunteer basis to industry and the investing public throughout BC. In fiscal 2004-2005, the Commission screened 26 Education Fund proposals; 20 were approved and six were rejected or withdrawn. The projects approved for funding include:

Development of a curriculum, materials and website for the personal financial management component of a new Ministry of Education planning course for grade 10 students	$ 1,309,682
Development and delivery of 14 educational programs about the new legislation to 1,745 participants	351,542
Delivery of up to 280 programs to Grade 8 students throughout the province by Junior Achievement of BC	215,170
Development and delivery of a three-day securities compliance and supervision training program in partnership with the Justice Institute of BC	115,000
Research study into the Eron Mortgage fraud by the Professor and Associate Director of the School of Criminology at Simon Fraser University	104,775
Development of a free online educational program for Chinese immigrants on an introduction to the Canadian capital market in partnership with the Chinese Cultural Society	59,064
Participation in and support for Scam Jam 2005, a BC consumer and investor awareness event held by the Better Business Bureau of Mainland BC	50,000
Development of Chinese investor education program in partnership with CHMB radio	49,830
Development of a specialty certificate in securities fraud analysis with the BC Institute of Technology	40,000
Support for an 18 college and university initiative to educate students about the stock market	40,000
Update and improve an introductory two-day program for trustees of pension plans in partnership with Sauder School of Business at the University of BC	35,000
Disbursements for a variety of smaller education initiatives, including: an annual crime prevention symposium; distribution of 20,000 affinity fraud brochures by educational partners; research on a proposed educational program for geologists and professional engineers, a corporate governance symposium with the Canadian Foundation for Investor Education, research on the viability of an investor education partnership with labor organizations, investor education kits	102,146
Total funding approved in fiscal 2004-05	**$ 2,370,063**

As of March 31, 2005, $2,139,503 of the total amount approved for funding during the year had been disbursed.

FUND BALANCE	Penalties	Settlements	Total
Balance March 31, 2004	$ 631,593	$ 3,287,845	$ 3,919,438
Additions	226,000	681,931	907,931
Interest	26,338	82,911	109,249
Disbursements/Commitments	—	(2,456,342)	(2,480,276)
Balance March 31, 2005	$ 883,931	$ 1,596,345	$ 2,456,342

FUND BALANCE	Total	Change $	Change %
Balance March 31, 2003	$ 4,214,142	($ 294,704)	-7
Additions	367,021	540,910	+143
Interest	123,580	(14,331)	-12
Disbursements/Commitments	(785,305)	(2,395,594)	+305
Balance March 31, 2004	$ 3,919,438	($ 2,163,719)	-55

planning 10 financial education initiative for youth

Our largest Education Fund disbursement of the year was for the design and development of curriculum materials and web resources for the financial and investment component of the Ministry of Education's new Planning 10 program. The course is designed to teach grade 10 students the financial skills they will need as adults. This initiative is by far the Commission's most ambitious education effort to date. ■ The program was developed in response to a Ministry of Education initiative revamping its entire public school curriculum three years ago, which included designating financial skills instruction as a mandatory subject for more than 55,000 grade 10 students each year. The BCSC worked with teachers, students and education experts to develop a number of recommended resources for teachers and students in support of this program, including a teacher manual with lesson plans, activities and information; a 30-minute professionally produced film on DVD describing the investment process through dramatization; a student portfolio; and a specially dedicated website that supports lesson plans and activities. The resources were reviewed by financial experts to ensure the information is accurate and current. ■ We have also developed a comprehensive teacher training program designed to show teachers how to use the resources, and an evaluation plan designed to assess the effectiveness of the materials and teacher training.

other programs:

During the year, we also delivered many other educational programs, highlights of which include:

- Almost 100 *Investigate Before You Invest* seminars delivered to about 5,000 investors province-wide
- 43 seminars on the new securities legislation delivered to more than 1,700 industry participants, and development and production of 17 different supporting publications
- Exhibits at 11 BC consumer and investor trade shows to distribute Commission education materials and information, up from three events in the previous year
- Our annual Capital Ideas industry conference with record attendance of 270 participants from the business and financial communities
- Special seminars on existing and proposed requirements governing disclosure of mining reserves and resources to several hundred industry participants, the largest gatherings held on this issue
- A research study of the investing experiences of 500 Chinese investors who attended a series of our investor protection seminars delivered in Cantonese
- New self-protection publications to help investors understand mutual funds and investing in private placements

our participation in the Canadian Securities Administrators

The CSA is the council of the securities regulators of Canada's provinces and territories. It coordinates and harmonizes regulation for the Canadian capital markets to protect investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets.

The CSA's policy development and other projects are done through permanent and project committees. Our staff are active in all CSA permanent committees, including the enforcement, market oversight, self-regulatory organization oversight, registration regulation, investment funds, corporate finance and investor education committees. They are also involved in most CSA project committees, in some cases leading the project on behalf of CSA.

For instance, this year, BCSC staff led a comprehensive review of National Instrument 43-101 *Standard of Disclosure for Mineral Projects* to simplify the rule and make it easier and less costly for mining companies to comply with securities regulations.

We also worked with our CSA colleagues to prepare for the launch of the NRS. Introduced just after the end of the fiscal year, the NRS makes important improvements to the registration regime of individuals and firms by harmonizing and streamlining the process across all jurisdictions. It allows an individual or firm to apply for registration in multiple jurisdictions and deal with only one regulator – its principal regulator. Each local regulator, however, retains authority to protect the registrant's clients in its province or territory. The NRS improves the registration process by applying principles of mutual reliance to reduce unnecessary duplication in the analysis and review of registration applications of investment dealers, mutual fund dealers, investment counsel and portfolio managers and their sponsored individuals.

Also throughout the year, BCSC staff were actively involved in CSA projects examining prospectus disclosure requirements, prospectus and registration exemptions; investment fund continuous disclosure; and capital accumulation plans.

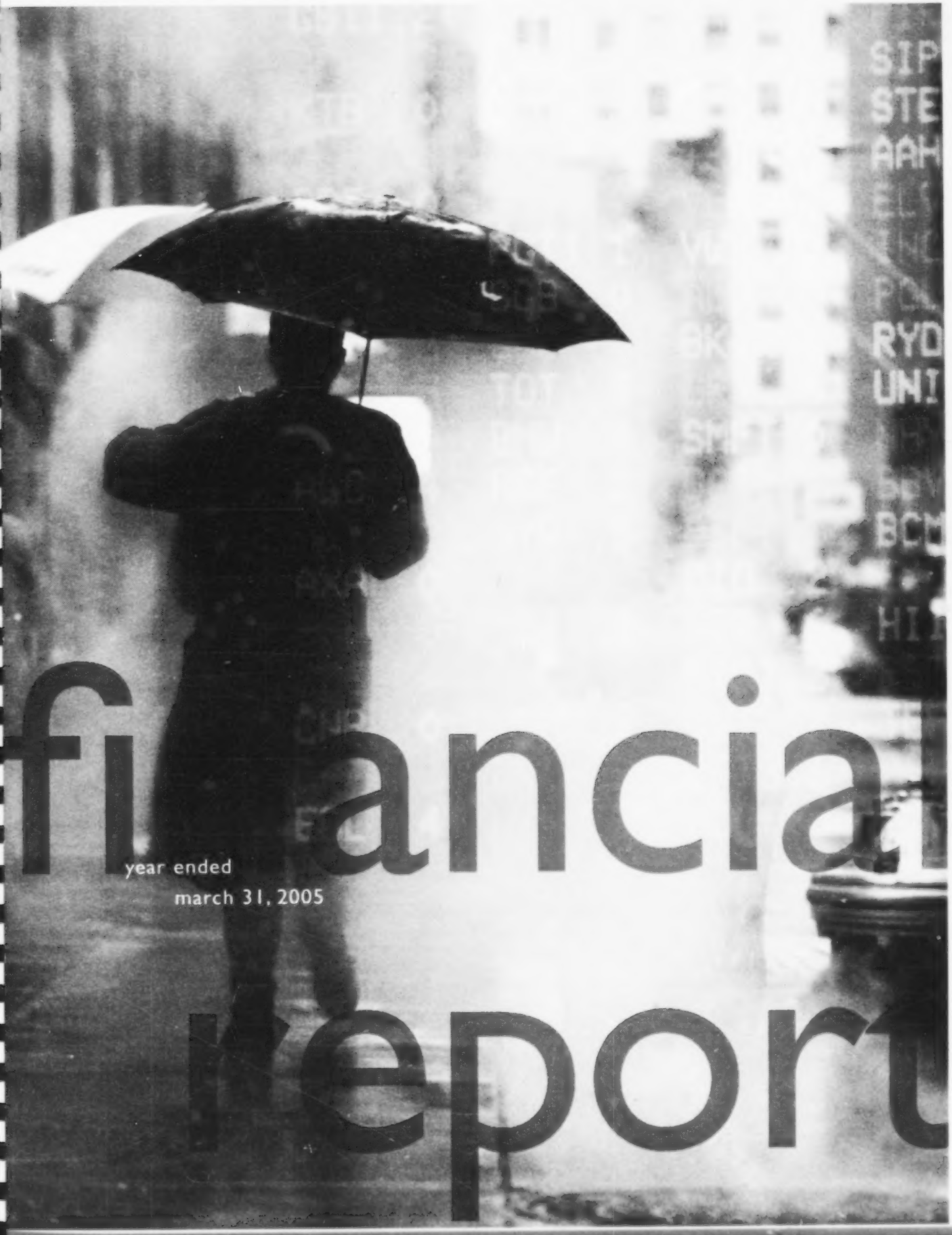
The BCSC was part of a group of three provincial securities regulators that proposed an alternative way to improve the disclosure of corporate governance practices by Canadian companies, urging for more public debate on the best regulatory approach to take. This debate took place and led to agreement among all CSA members on how to deal with this important issue. National Policy 58-201 *Corporate Governance Guidelines* and National Instrument 58-101 *Disclosure of Corporate Governance Practices* will come into effect on June 30, 2005.

In December 2004, the CSA issued its first joint report on enforcement activities, providing information about proceedings launched and sanctions issued during the six months ended September 30, 2004.

The CSA issued the report to provide an overview of the scope of the enforcement activities carried out by its members. Compiling the information also provides other benefits to the CSA by increasing our ability

- to identify trends
- to identify Commission and Court decisions that might have an impact on the regulatory regime
- to better coordinate our processes and investigations across jurisdictions

During the year, BCSC staff played a lead role in developing a proposed principal regulator system to implement the first stage of a "passport system" proposed by most provincial and territorial ministers responsible for securities regulation. CSA published a set of rule and policy initiatives to create the principal regulator system on May 27, 2005.



financial report

year ended
march 31, 2005

This discussion and analysis of financial position and results of operations of the British Columbia Securities Commission is prepared as at April 22, 2005, and should be read in conjunction with our audited financial statements and related notes for the year ended March 31, 2005. ■ These documents are available on our website at www.bcsc.bc.ca. ■ All financial information provided in this report is prepared in accordance with Canadian generally accepted accounting principles and is in Canadian dollars.

FINANCIAL REVIEW

We aim to operate the BCSC at break even. This is challenging because most of our costs are fixed while our revenues fluctuate in proportion to market activity. ■ Market participants fund the BCSC. ■ Strong market activity during the late 1990s resulted in higher than necessary fee revenues and an accumulating surplus. From our incorporation on April 1, 1995 to March 31, 2001 we accumulated surpluses totaling $25.1 million, net of a $12 million transfer to the Province in fiscal 1999. ■ To address the imbalance, we eliminated or permanently reduced 14 of our fees, totaling approximately $4 million of annual revenue, on January 1, 2001. To return about $12 million of the accumulated surplus to market participants, we also temporarily reduced fees in January 2002 for one year. We allocated $12 million of the remaining surplus to a fee stabilization reserve so that temporary reductions in revenue would not immediately impair our ability to operate, or require immediate fee increases[1]. Temporary fee reductions significantly reduced fiscal 2003 and 2004 revenues[2].

[1] The government must approve any changes to our fee schedule.
[2] A firm registration fee holiday for MFDA members, with a $0.3 million / year impact, ends in fiscal 2010.

Summary of results

Operations generated a $0.6 million surplus in fiscal 2005 (2004 – $4.8 million deficit), excluding Education Reserve transactions. We expect a similar result for fiscal 2006. We may need to increase filing fees, or reduce expenses, to break even in 2007 and 2008. The following table summarizes our actual and expected results of operations and financial position:

	2001 Audited	*2002 Audited*	*2003 Audited*	*2004 Audited*	*2005 Audited*	*2006 Budget*
REVENUES						
Prospectus and other distributions	16.0	12.7	8.6	11.6	13.3	12.4
Registration	6.9	7.3	6.2	4.9	8.1	7.9
Financial filings	3.9	3.6	1.8	4.5	4.7	5.2
Other fees	1.4	0.7	0.6	0.6	0.5	0.4
	28.2	24.3	17.2	21.6	26.6	25.9
Enforcement revenues	2.0	1.4	0.4	0.5	1.2	0.5
Investment income	1.9	1.4	0.9	0.8	0.5	0.6
	3.9	2.8	1.3	1.3	1.7	1.1
Fee revenues *(before temp. reductions)*	28.2	25.4	23.9	24.9	26.9	26.2
Fee revenue growth rate	14%	-10%	-6%	4%	8%	-3%
EXPENSES						
Salaries and benefits	16.4	18.9	19.5	19.5	19.7	19.4
Other operating expenses	7.3	7.5	8.2	7.7	7.0	7.4
Education *(non-operating expense)*	0.3	0.3	0.2	0.8	2.1	1.2
	24.0	26.7	27.9	28.0	28.8	28.0
Operating expenses	23.7	26.4	27.7	27.2	26.7	26.8
Operating expense growth	18%	11%	5%	-2%	-2%	0%
(DEFICIT) / SURPLUS	8.1	0.4	(9.4)	(5.1)	(0.5)	(1.0)
Average FTEs	206	208	206	204	195	190
Capital additions	6.4	1.5	0.8	0.8	0.4	0.4
ACCUMULATED SURPLUSES						
Contributed	1.4	1.4	1.4	–	–	–
General	13.1	12.9	3.2	–	0.7	0.3
Fee stabilization reserve	12.0	12.0	12.0	11.8	11.8	11.8
Education reserve	3.2	3.9	4.2	3.9	2.8	1.9
	29.7	30.2	20.8	15.7	15.3	14.0

REVENUES

Our operations are funded from filing fees paid by market participants and fluctuate with market activity. Revenues consist of:

- filing, registration and application fees paid by securities market participants
- amounts collected from administrative penalties and settlements for breaches of the *Securities Act*, and enforcement cost recoveries
- investment portfolio income

Fee revenues

Fees account for 94% of our total revenue (fiscal 2004 – 94%), and relate primarily to capital raising activities and securities trading in British Columbia. Mutual funds paid about $10.4 million in fees, about 39% (fiscal 2004 – $8.4 million, or 40%) of fee revenues. We collect:

CATEGORY	DESCRIPTION	% OF FEE TOTAL FISCAL 2005	FISCAL 2004
Distribution fees	Paid by securities issuers when they file disclosure documents	50.0	47.2
Registration fees	Paid by individuals and firms to register with us to sell or advise on securities	30.5	32.3
Financial filing fees	Paid by public companies when they file annual and quarterly financial statements	17.6	18.3
Other fees	Paid by market participants primarily to request exemptions from Securities Act requirements	1.9	2.3

Distribution fee revenues vary depending on the number and sizes of offerings completed each year and are lower during weak markets. "Other" fees have declined significantly over the last five years because we eliminated some fees in fiscal 2001 and now often issue blanket exemption orders that reduce the need for individual applications. The remaining fee categories have low volatilities and have grown slowly over the last several years. ■ Fee revenues rose $5.0 million to $26.6 million in fiscal 2005 (fiscal 2004 – $21.6 million). Fee revenues increased because:

- Our temporary fee reductions ended in fiscal 2004. Temporary reductions reduced that year's registration fees by $3 million.
- Five mutual fund dealers paid us $0.8 million to correct prior year distribution fee calculation errors.
- Higher exempt market (i.e. non-prospectus distributions) activity increased distribution fees by $0.4 million.
- We received $0.5 million higher "gross proceeds" distribution fees. These fees are paid primarily by mutual funds, based on their gross BC sales. Gross mutual fund sales increased significantly during fiscal 2005 after three years of decline.
- More prospectus amendments were filed this year, increasing distribution fees by $0.1 million.
- A new requirement that all non-venture issuers file their annual financial statements within 90 days of their fiscal year-ends caused some market participants to make two annual financial statement filings during fiscal 2005, increasing financial filing fees by $0.1 million.
- The full-year impact of a previous year reduction of the insider filing deadline increased late insider report financial filing fees by $0.1 million.
- Overall, fewer annual information forms (AIF) were filed this year, reducing distribution fee revenues by $0.3 million. Changes to capital-raising exemptions eliminated the benefit venture (i.e. junior market) issuers gained from filing AIFs. That reduced AIF filing fee revenues by $0.6 million. However, a new requirement that all non-venture (i.e. senior market) issuers file annual information forms within 90 days of their fiscal year-ends caused some market participants to file two AIFs during fiscal 2005, increasing AIF filing revenues by $0.3 million.

Enforcement revenues

Enforcement revenues, comprised of receipts from administrative penalties, designated settlements, and enforcement cost recoveries, are unpredictable. Revenues depend on the timing of enforcement actions completed during the year, and on our ability to collect assessed amounts. Collecting enforcement revenues is difficult because respondents often have limited assets, poor credit or have left British Columbia.

So, we only recognize these revenues when we receive payment. ■ Receipts designated as cost recoveries are recognized as operating revenue. Receipts from administrative penalties and settlement payments in excess of our costs of investigation are appropriated to our Education Reserve and spent only to educate securities market participants and members of the public about investing, financial matters or the operation or regulation of securities markets. ■ Since our incorporation on April 1, 1995, we have collected $9.6 million (48%) of $20.1 million sanctioned, of which $3.9 million (40%) of payments were received from five respondents. We use both government and private collection agencies to pursue outstanding amounts, which totaled $10.5 million as at March 31, 2005 (March 31, 2004 – $6.2 million), indefinitely.

Investment income

In general, our portfolio generates modest returns because we invest conservatively. Investment income declined to $0.5 million (fiscal 2004 – $0.8 million) because our average portfolio balance and investment yields were both lower in fiscal 2005:

FISCAL	INVESTMENT INCOME *(thousands)*	AVERAGE PORTFOLIO BALANCE	YIELD
2005	450.7	16,781.2	2.69%
2004	795.6	17,726.8	4.49%

OPERATING EXPENSES

Education Reserve transactions are discussed separately, below. ■ We are committed to managing our expenses so they do not exceed our revenue expectations over the business cycle. We control our expenses by conducting comparative salary surveys, reviewing our costs compared to budget on a monthly basis, and requiring senior management approval of all significant expenses. ■ Operating expenses declined $0.5 million (2%) to $26.7 million (fiscal 2004 – $27.2 million). Expenses declined primarily because we spent less on consulting and national policy projects ($0.3 million), recovered some prior year system development costs from another securities regulator ($0.2 million), and finished writing

a new *Securities Act*[1] early in the fiscal year ($0.2 million). These declines were partly offset by higher ($0.2 million) salary and benefit costs. We had fewer employees, but they had higher salaries and took less vacation (i.e. increased leave liability). ■ We expect operating expenses to grow slightly (see introductory table) in fiscal 2006 period because cost increases will be partly offset by reductions in expenditures directly related to the completion of the New Legislation project. Non-project expense growth is driven primarily by merit-based annual general salary increases, which we expect to average 3.1% in fiscal 2006, and inflation, which the government has forecast will average 2.1% in fiscal 2006. ■ Our most significant expenses are salaries and benefits, professional services, rent, and depreciation costs.

Salaries and benefits

Salaries and benefits account for about 74% (fiscal 2004 – 72%) of our expenses. We averaged the equivalent of 195 full-time staff during the year (fiscal 2004 – 204). Since we compete for professional staff with law firms, accounting firms, the securities industry and other regulators, our salaries must be competitive with those groups. So, our compensation package includes a performance-based incentive program available to all staff. ■ Staff effort (with overhead allocated proportionately) is focused in the following areas:

AREA	FISCAL 2005	FISCAL 2004
Enforcing rules	46.6%	43.4%
Monitoring issuer compliance and setting issuer rules	31.1%	35.0%
Monitoring registrant compliance and setting registrant rules	17.6%	18.4%
Industry and investor education	4.6%	3.3%

Salary and benefit costs increased by $0.2 million (1%) to $19.7 million (fiscal 2004 – $19.5 million). Employees received an average merit increase of 3.8% effective April 1, 2004. Accrued leave costs increased by $0.1 million (23%) – staff took less vacation because much effort was required to prepare our systems and processes for the new *Securities Act*. These cost increases were partly offset by a 4.6% decrease in the average size of our staff because we reorganized departments to make more efficient use of our employees' skills.

[1] The government passed the new Securities Act on May 11, 2004.
On November 17, 2004, the government decided to delay proclamation.

Professional services

Professional service costs declined $0.5 million (20%) to $1.7 million (fiscal 2004 – $2.2 million) because our Enforcement department used less outside legal counsel and we contributed less to national projects. Other components of professional services expense include contracted legislative drafting, certain information-technology related consulting, human resources consulting, document management, transcription, and other legal services.

External communications

External communication costs dropped by $0.2 million (33%) to $0.5 million (fiscal 2004 – $0.7 million) because fiscal 2004 included costs to distribute the new *Securities Act* for comment. Other significant communication activities during the year included delivering 97 investor education seminars, the Capital Ideas industry conference, other industry education initiatives, and producing our annual report.

Information technology

Information technology expenses decreased 43% to $0.1 million (fiscal 2004 – $0.2 million) because higher software licensing costs were offset by a $0.2 million recovery of system development costs from the Autorité des marchés financiers (AMF). During the year, the AMF, the Quebec securities market regulator, joined the National Registration Database (NRD), an electronic filing and payment system for registrants. We spend significant amounts on information technology annually to continually improve market participants' access to our services, the information we maintain, and the speed and quality of our regulatory duties.

Business travel

Business travel expenses decreased $0.1 million (44%) to $0.3 million (fiscal 2004 – $0.4 million) because we incurred significant travel expenses during fiscal 2004 to complete NRD development.

EDUCATION RESERVE

Education reserve disbursements increased by $1.3 million to $2.1 million (fiscal 2004 - $0.8 million). Most significantly, we spent $1.2 million to develop curriculum materials and web resources for the financial and investing component of a new course for grade 10 students (Planning 10). We also spent $0.4 million to prepare & educate issuers & registrants on the new *Securities Act* by developing 12 core programs and delivering about 50 individual seminars. ■ We have earmarked $1.1 million of the Education Reserve to complete current projects, including $0.8 million to maintain Planning 10 resources.

(thousands)	FISCAL 2005	FISCAL 2004	CHANGE $	CHANGE %
Opening Balance	3,919	4,214	(295)	(7%)
Administrative penalties and designated settlements	908	367	541	147%
Investment income allocation	109	124	(14)	(12%)
Disbursements	(2,096)	(785)	(1,310)	167%
Closing Balance	2,841	3,919	(1,078)	(28%)
Outstanding commitments	1,085	–	1,085	100%
Balance, net of commitments	1,756	3,919	(1,670)	(43%)

FINANCIAL POSITION AND LIQUIDITY

Operating cash flow and investing activities

Cash and investments (including the fee stabilization reserve, but excluding amounts reserved for education) totaled $16 million at yearend (fiscal 2004 - $14.8 million). The increase is due primarily to our $1.9 million operating surplus before depreciation being only partly offset by capital additions and working capital changes. During the year we invested $0.4 million (fiscal 2004 - $0.8 million) in capital assets, primarily information technology. ■ While our working capital deficit is $4.3 million (fiscal 2004 – $5.8 million), we have sufficient liquidity and capital resources. This is because the deficit relates to our deferred registration revenue, which will be taken into income during the year and will not require cash to settle. In addition, we can draw on our $11.8 million fee stabilization reserve when necessary.

Liabilities

Accounts payable and accrued liabilities fell $0.7 million to $0.4 million (fiscal 2004 – $1.1 million) because the fiscal 2004 balance included $0.3 million for projects that were completed in early fiscal 2005, and because we paid expenses quickly during February and March 2005 to ease our transition to new accounting software on April 1, 2005. ■ Deferred revenue relates entirely to prepaid registration fees at both year-ends. Registrations are received in advance for a term that follows the calendar year. ■ Accrued salaries increased $0.3 million to $2.5 million (fiscal 2004 - $2.2 million), due primarily to accrued severance related to fiscal 2005 reorganizations. ■ Employee leave liability, representing accrued employee vacation and other leave time, increased by $0.1 million to $0.7 million as employees took less vacation time.

QUARTERLY FINANCIAL INFORMATION

(thousands)	*Fiscal 2005*				*Fiscal 2004*			
OPERATING	*Mar.*	*Dec.*	*Sept.*	*June*	*Mar.*	*Dec.*	*Sept.*	*June*
Revenues	$6,400	$6,553	$6,345	$8,016	$ 5,538	$ 5,184	$ 5,039	$6,659
Expenses	7,096	6,415	6,708	6,451	7,169	6,654	6,410	6,907
Surplus *(Deficit)*	$ (696)	$ 139	$ (363)	$ 1,565	$(1,631)	$ (1,470)	$ 1,371)	$ (248)
EDUCATION								
Revenues	$ 142	$ 314	$ 345	$ 216	$ 300	$ 45	$ 76	$ 70
Disbursements	(327)	(1,156)	(377)	(235)	(210)	(243)	(175)	(157)
Surplus *(Deficit)*	$ (185)	$ (842)	$ (32)	$ (19)	$ 90	$ (198)	$ (99)	$ (87)
CONSOLIDATED								
Surplus *(Deficit)*	$ (881)	$ (703)	$ (395)	$ 1,546	$(1,541)	$ (1,668)	$(1,470)	$ (335)

Because of prospectus and other statutory filing patterns, we normally generate surpluses from operations (i.e. excluding education fund revenues and disbursements) in the first and second quarters, which are offset by deficits in the third and fourth quarters. In addition, our calendar 2002 fee reductions reduced quarterly results to March 31, 2004.

RISKS AND OPPORTUNITIES

Fee revenue

In addition to our planned temporary fee reductions, lessened activity in the securities markets resulted in lower fee revenues over the last three fiscal years. At present levels of fees and market activity, we have cash reserves sufficient to support our operations for the foreseeable future. We continue to monitor market activity levels to ensure revenues are sufficient to support our operations.

Reliance on CDS INC (CDS)

Under various agreements with the CSA, CDS operates the following electronic systems:

- System for Electronic Document Analysis and Retrieval (SEDAR): an electronic system for securities market participants to file regulatory documents and pay fees
- National Registration Database (NRD): an electronic system for registrants (i.e. dealers, advisers and their representatives) to register and pay fees
- System for Electronic Disclosure by Insiders (SEDI): an internet-based electronic system for insiders to report their trades

About 87% of our fee revenue is collected through SEDAR and NRD. Should CDS become unable or unwilling to continue to operate any of these systems, the CSA would have to contract with another party.

SEDAR system shortfalls

We must fund 15.4% of any SEDAR system operating loss. However, the chance of an operating loss occurring is low because:

- System revenues and expenses do not vary much from year to year
- The CSA participates in setting the system's annual operating budget

New legislation project

On October 1, 2001, we started a project to reform securities regulation. We submitted proposed legislation to the government in early fiscal 2005. The government passed the new *Securities Act* on May 11, 2004, but has deferred its proclamation. Project costs, primarily the salaries and benefits costs of the team members, are included in operating expenses and total:

FISCAL	NEW LEGISLATION PROJECT TEAM COSTS
2002	0.7 million
2003	1.7 million
2004	2.1 million
2005	1.0 million
Total	5.5 million

Securities regulatory reform

On September 30, 2004, several of Canada's provincial ministers responsible for securities regulation signed the *Provincial / Territorial Memorandum of Understanding Regarding Securities Regulation* (Passport MOU). That agreement proposes a single window of access to capital markets in participating provinces and territories, to be established by August 2005, and a review of the regulatory fees charged in the context of the passport system. ■ While both the Passport MOU and the proclamation of a new *Securities Act* may change what we do and how we fund our operations, we have forecast no impact on our revenues and expenses because we expect any changes to have no net impact on our bottom line.

CONTRACTUAL AND OTHER OBLIGATIONS

Our contractual and other obligations as at March 31, 2005 are summarized as follows:

(millions)	TOTAL	LESS THAN 1 YEAR	2 - 3 YEARS	4 - 5 YEARS	MORE THAN 5 YEARS
Rent and operating costs	13.8	1.8	4.0	4.3	3.7
Disaster recovery services	0.3	0.1	0.2	–	–
	14.1	1.9	4.2	4.3	3.7

CRITICAL ACCOUNTING ESTIMATES

Management must make estimates and assumptions when preparing the financial statements. Management makes those assumptions based on experience and current conditions, and believes that they are reasonable. However, actual results may differ from management's estimates. In our financial statements, management has estimated the portion of accounts and advances receivable that we will receive, the useful lives of our capital assets, and the value of employee leave liability.

Accounts and advances receivable

We accrue amounts due when they meet generally accepted revenue recognition criteria. Based on experience, the collection of Enforcement Revenues is not reasonably assured and the realizable amount not reasonably estimable until we receive payment.

Capital assets

We capitalize goods and services when their cost is greater than $2,000 and their benefit to us extends beyond the current fiscal year. We amortize the cost of our capital assets over their expected useful lives based on our experience with similar assets. Our capital assets consist primarily of leasehold improvements and information technology. New information could reduce or eliminate an asset's value or expected useful life.

Employee leave liability

Our employees accrue vacation and other leave entitlements based on their years of service. We have estimated the value of employee leaves not yet taken based on our employee records and attributed benefit costs to those leaves using our experience. The actual value of employee leaves taken will vary depending on their particular circumstances.

CHANGE IN ACCOUNTING POLICY

We pay the Pacific District of the Investment Dealer's Association (IDA) a fee for registrations it processes on our behalf. We expense internal registration application and renewal processing costs when paid, and, until 2005, expensed IDA fees when paid because we attributed the fees paid to the cost of

processing IDA registrations. However, since the IDA also has registration compliance and enforcement responsibilities that extend throughout and beyond the registration periods of its members, we believe it is more appropriate to defer and amortize IDA fees over the related registration periods. So, during the fourth quarter of fiscal 2005, we changed our accounting policy for IDA fees, and applied the changes retroactively. As a result, fiscal 2005 registration revenue decreased by $13,959. ■ We have also restated the 2004 comparative figures, as follows:

- Prepaid expenses and deposits – increased by $230,878
- Deferred revenue – increased by $216,919
- Registration fees – increased by $29,466
- Professional services – increased by $15,507
- General surplus – increased by $13,959
- Cash receipts from fees – increased by $246,385
- Cash paid to suppliers and others – decreased by $246,385

ACTUAL RESULTS COMPARED TO BUDGET

2005 Revenue exceeded budget by $0.3 million because one-time gains, relating primarily to prior year fee corrections and filing deadline changes, totaling $1.5 million, outweighed negative volume variances, relating primarily to fewer AIF filings and lower registration revenues, totaling $1.2 million. ■ Expenses were $2.1 million (7%) below budget, due primarily to lower than expected use of external consultants, lower salary and benefit costs due to reorganization and one senior vacancy, a significant recovery of prior year system development costs from another regulator, and generally lower travel and training expenses.

OPERATIONS

(millions)	ACTUAL	BUDGET	VARIANCE
Revenue	$ 27.3	$ 27.0	$ 0.3
Expense	26.7	28.7	2.1
Surplus (Deficit)	0.6	(1.7)	2.3
Capital Expenditures	$ 0.4	$ 0.9	$ 0.5

EDUCATION FUND

(millions)	ACTUAL	BUDGET	VARIANCE
Revenue	$ 1.0	$ 0.4	$ 0.7
Expense	2.1	2.7	0.6
Deficit	$ (1.1)	$ (2.3)	$ 1.2

COMBINED

(millions)	ACTUAL	BUDGET	VARIANCE
Revenue	$ 28.4	$ 27.4	$ 1.0
Expense	28.8	31.4	2.7
Deficit	(0.4)	(4.1)	3.7
Capital Expenditures	$ 0.4	$ 0.9	$ 0.5

2004 Revenue exceeded budget by $0.2 million primarily because we received $0.2 million more in investment income than we expected. This was caused by better investment returns and slightly higher cash balances than expected. Expenses were under budget in depreciation ($0.3 million), information technology ($0.2 million), travel ($0.1 million) and administration ($0.1 million). These savings were offset by higher than budgeted education reserve disbursements ($0.4 million).

(millions)	ACTUAL	BUDGET	VARIANCE
Revenue	$ 22.9	$ 22.7	$ 0.2
Expense	27.9	28.1	0.2
Deficit	(5.1)	(5.5)	0.4
Capital Expenditures	$ 0.8	$ 0.8	$ 0.1

2003 Revenue was under budget primarily because lower than expected mutual fund sales reduced fee revenues by $1.7 million. Securities exemption applications fell, rather than rebounding as expected, which lowered fee revenue by another $0.2 million. ■ Expenses were under budget primarily because we compensated for a portion of our revenue shortfall by reducing discretionary spending and delaying or deferring information technology capital projects.

(millions)	ACTUAL	BUDGET	VARIANCE
Revenue	$ 18.5	$ 20.5	$ (2.0)
Expense	27.9	28.4	0.6
Deficit	(9.4)	(8.0)	(1.4)
Capital Expenditures	$ 0.8	$ 1.3	$ 0.6

OUTLOOK FOR FISCAL 2006

We expect fiscal 2006 fee revenues to decline by $0.7 million (3%) because changes to distribution and financial reporting deadlines will reduce filing volumes. ■ We expect fiscal 2006 expenses to increase slightly compared to fiscal 2005 because a small reduction in staff numbers will be more than offset by higher information technology and external consulting costs. ■ We expect that these activities will result in us having a cash balance (including the fee stabilization reserve, but excluding amounts reserved for education) at March 31, 2006 of $16.8 million, up $0.8 million from March 31, 2005.

STATEMENT OF MANAGEMENT RESPONSIBILITY

Management of the British Columbia Securities Commission is responsible for ensuring that the financial statements and other financial information in this annual report are complete and accurate. Management, consisting of the Executive Director and her senior staff, has prepared the financial statements according to accounting principles that are generally accepted in Canada. The preparation of financial statements necessarily involves the use of estimates, which have been made using careful judgment. It is possible that circumstances will cause actual results to differ. Management does not believe it is likely that any differences will be material. Financial information contained throughout this annual report, including the management discussion and analysis and the charts and figures in the body of the annual report, is consistent with these financial statements. Management develops and maintains systems of control that give the Commission reasonable assurance that management has:

- operated within its authorized limits,
- safeguarded assets, and kept complete and accurate financial records.

The commissioners are responsible for establishing prudent rules of business and staff conduct. It is the Commission's policy to maintain the highest standards of ethics in all its activities. The Commission has created an employee conduct policy, including conflict of interest rules for employees and commissioners, to achieve those standards. The commissioners are also responsible for ensuring that management fulfills its financial reporting and control responsibilities, and have appointed an audit committee to oversee the financial reporting process. The majority of the committee members are part-time commissioners who do not participate in the day-to-day operations of the Commission. The audit committee meets regularly throughout the year with management, the internal auditors and the external auditors to review the:

- financial statements,
- adequacy of financial reporting, accounting systems and controls, and
- internal and external audit functions.

The internal auditors are charged with the responsibility of reviewing and evaluating the adequacy of and compliance with the Commission's internal control standards. The internal auditors report the results of their reviews and make recommendations both to management and the audit committee.

The external auditor's responsibility is to express an opinion on whether the financial statements, in all material respects, fairly presents the Commission's financial position, results of operations and cash flows in accordance with accounting principles that are generally accepted in Canada. The internal and external auditors have full and open access to the audit committee, with and without the presence of management. The audit committee has reviewed these financial statements and has recommended the commissioners approve them. The British Columbia Lieutenant Governor in Council has appointed the Auditor General to be the independent auditor of the Commission. The Auditor General has examined the financial statements and his report follows.

Douglas M. Hyndman
Chair and Chief Executive Officer

Brenda M. Leong
Executive Director

REPORT OF THE AUDITOR GENERAL OF BRITISH COLUMBIA

To the Commissioners of the British Columbia Securities Commission, and
To the Minister of Small Business and Economic Development, Province of British Columbia:

I have audited the balance sheet of the British Columbia Securities Commission as at March 31, 2005 and the statements of operations, of surpluses, and of cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the British Columbia Securities Commission as at March 31, 2005 and the results of its operations, its surpluses, and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Wayne Strelioff
Auditor General

Victoria, British Columbia
April 22, 2005

balance sheet

British Columbia Securities Commission
As at March 31, 2005
(audited)

	2005	2004 restated - see note 2(e)
ASSETS		
Current asset		
Cash and short term investments *(note 4)*	$ 4,212,218	$ 2,960,275
Accounts and advances receivable *(note 5)*	197,754	197,915
Prepaid expenses and deposits	416,964	406,917
	4,826,936	3,565,107
Investments held for designated purposes *(note 4)*	14,662,965	15,741,422
Capital assets *(note 6)*	5,108,593	6,002,408
	$ 24,598,494	$ 25,308,937
LIABILITIES		
Current liabilities:		
Accounts payable and accrued liabilities	$ 394,264	$ 1,108,144
Accrued salaries	2,522,726	2,217,001
Deferred revenue	5,478,760	5,463,494
Employee leave liability *(note 7)*	733,632	594,177
	9,129,382	9,382,816
Deferred rent	148,469	170,740
SURPLUSES		
General *(note 8)*	657,678	13,959
Fee stabilization reserve *(note 9)*	11,821,984	11,821,984
Education reserve *(note 9)*	2,840,981	3,919,438
	15,320,643	15,755,381
	$ 24,598,494	$ 25,308,937

Note 14 describes our commitments and contingent liabilities.

The accompanying notes are part of the financial statements.

Approved by the Commission:

Douglas M. Hyndman
Chair

John K. Graf
Member

statement of operations

British Columbia Securities Commission
For the Year Ended March 31, 2005
(audited)

	2005	2004 restated – see note 2(e)
REVENUES		
Fees		
Prospectus and other distributions	$ 13,341,175	$ 11,610,735
Financial filings	4,685,119	4,506,655
Registration	8,127,832	4,928,488
Exemptions and orders	482,580	530,156
Other	16,366	25,924
Administrative penalties and designated settlements *(note 9)*	907,931	367,021
Enforcement cost recoveries *(note 10)*	318,884	147,032
Investment income	450,702	795,556
	28,330,589	22,911,567
EXPENSES		
Salaries and benefits *(notes 12 and 13)*	19,710,927	19,531,524
Professional services	1,706,158	2,191,497
Rent	1,764,585	1,706,116
Depreciation	1,296,157	1,291,576
Information technology	137,543	243,817
Administration	806,521	767,156
Business travel	279,944	353,579
External communications	459,753	683,492
Staff training	321,074	251,269
Education reserve *(note 9)*	2,095,637	785,305
Telecommunications	187,028	152,073
	28,765,327	27,957,404
EXCESS OF EXPENSES OVER REVENUES	$ (434,738)	$ (5,045,837)

The accompanying notes are part of the financial statements.

statement of surpluses

British Columbia Securities Commission
For the Year Ended March 31, 2005
(audited)

	Fee Stabilization (note 8)	Education General	Contributed (note 9)	Reserve (note 9)	Reserve Total
Balance, March 31, 2003	$ 1,415,018	$ 3,172,058	$ 12,000,000	$ 4,214,142	$ 20,801,218
Excess of expenses over revenues *(restated - note 2(e))*	–	(5,045,837)	–	–	(5,045,837)
Appropriation during the year	(1,415,018)	1,887,738	(178,016)	(294,704)	–
Balance, March 31, 2004 *(restated - note 2(e))*	$ –	$ 13,959	$ 11,821,984	$ 3,919,438	$ 15,755,381
Excess of expenses over revenues	–	(434,738)	–	–	(434,738)
Appropriation during the year	–	1,078,457	–	(1,078,457)	–
Balance, March 31, 2005	$ –	$ 657,678	$ 11,821,984	$ 2,840,981	$ 15,320,643

The accompanying notes are part of the financial statements.

statement of cash flows

British Columbia Securities Commission
For the Year Ended March 31, 2005
(audited)

	2005	2004 restated - see note 2(a)
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from fees	$ 26,596,161	$ 25,179,347
Cash receipts from penalties and settlements	1,226,815	514,053
Cash paid to employees	(19,251,284)	(19,837,448)
Cash paid to suppliers and others	(8,147,760)	(7,065,622)
Investment income received	453,702	796,556
	877,634	(413,114)
CASH FLOWS USED FOR INVESTING ACTIVITIES		
Paid for capital assets	(704,148)	(530,829)
Net increase (decrease) in cash and cash equivalents	173,486	(943,943)
Cash and cash equivalents, beginning of year	18,701,697	19,645,640
Cash and cash equivalents, end of year	$ 18,875,183	$ 18,701,697
Represented by:		
Cash and short term investments	$ 4,212,218	$ 2,960,275
Investments held for designated purposes	14,662,965	15,741,422
	$ 18,875,183	$ 18,701,697

The accompanying notes are part of the financial statements.

1 NATURE OF OPERATIONS

The British Columbia Securities Commission is a Crown corporation created by the Province of British Columbia on April 1, 1995. We regulate the trading of securities and exchange contracts in BC. As a government agency, we pay only those taxes paid by the provincial government.

2 SIGNIFICANT ACCOUNTING POLICIES

Management has prepared these financial statements according to accounting principles that are generally accepted in Canada. The important accounting policies used are:

a) Short term and designated investments Under BC law, we must invest any money that we receive, but do not immediately need, in an investment pool that the British Columbia Investment Management Corporation, a BC government organization, administers. We buy units in pooled investment funds that invest primarily in:

- Canadian money market instruments maturing within 15 months, and
- Canadian bonds issued or guaranteed by the government of Canada or a provincial government and maturing within 10 years.

Any earnings from our investments are reinvested in the same fund and add to the carrying value of the units we own. We value our short term investments and investments held for designated purposes at the lower of their carrying value or their market value. The fair value of short term investments and investments held for designated purposes is considered to be the market value. Fair value is the amount that would be agreed upon by two unrelated parties to a transaction who have full knowledge of all relevant facts and who are under no obligation to act.

b) Capital assets We record our capital assets at cost. We depreciate them using the straight line method over their useful lives. We estimate the useful lives of our assets to be as follows:

- Information technology assets – three years

- Leasehold improvements – the length of the remaining lease term or the length of the estimated useful life of each improvement, whichever time is shorter
- Office furniture and equipment – ten years

c) Revenue We accrue prospectus and other statutory filing fees when filings are made and collectibility is assured. The amounts due and their collectibility are normally determined simultaneously, as most filings are paid for immediately. Registration fees are paid to us in advance. We recognize only the portion of fees that relate to the registration period falling in the current fiscal year as revenue. We treat the balance as deferred revenue and recognize it as income in the next year. We recognize administrative penalties, settlements, and recoveries of enforcement costs as revenue only when we receive payment since the collection of these amounts is uncertain (see note 10).

d) Use of estimates Canadian generally accepted accounting principles require management to make estimates and assumptions for certain amounts disclosed in the financial statements. In our financial statements, management has estimated the:

- portion of accounts and advances receivable that we will receive,
- useful lives of capital assets, and
- value of the employee leave liability.

Results may differ from these estimates.

e) Change in accounting policy We pay a portion of the registration fees we collect to the Investment Dealers Association (IDA) because the IDA is responsible for regulating its member firms. During the fourth quarter of fiscal 2005, we retroactively changed our accounting policy for these fees, which we previously expensed when paid. We now defer and recognize IDA fees over the terms of the related registrations. We made this change because we benefit from these expenses over the course of the year. As a result, current year registration revenue dropped by $13,959. We have also restated the 2004 comparative figures, as follows:

- Prepaid expenses and deposits – increased by $230,878
- Deferred revenue – increased by $216,919
- Cash receipts from fees – increased by $246,385
- Cash paid to suppliers and others – decreased by $246,385
- Registration fees – increased by $29,466
- Professional services – increased by $15,507
- General surplus – increased by $13,959

3 FINANCIAL INSTRUMENTS

The carrying values of cash and cash equivalent assets, accounts and advances receivable, accounts payable and accrued liabilities, accrued salaries, and employee leave liability, approximate their fair value because of their short maturity dates. Short term investments and investments held for designated purposes are subject to credit risk and interest rate risk. Credit risk is the risk that investment values will fluctuate because debtors cannot pay. We believe this risk is low because most of our investments are in government securities. Interest rate risk is the risk that investment values will fluctuate because of changes in market interest rates. We mitigate this risk by investing primarily in short term instruments.

4 INVESTMENTS

Investments consist of:

		2005				2004			
		Units	Expected Return	Carrying Value	Market Value	Units	Expected Return	Carrying Value	Market Value
Short term investments	Pooled Canadian Money Market Fund ST2	0.60	2.56%	$ 1,915,266	$ 1,915,266	0.77	2.02%	$ 2,421,126	$ 2,421,126
Investments held for designated purposes	Pooled Canadian Money Market Fund ST2	2.40	2.56%	$ 7,678,167	$ 7,678,167	2.39	2.02%	$ 7,473,028	$ 7,473,028
	Short Term Bond Fund	3.88	3.46%	6,984,798	6,984,798	4.76	2.70%	8,268,394	8,335,128
			2.99%	$14,662,965	$14,662,965		2.38%	$15,741,422	$15,808,156

5 ACCOUNTS AND ADVANCES RECEIVABLE

Accounts and advances receivable consists of:

	2005	2004
Canadian Securities Administrators	$ 80,522	$ 135,236
Filing fees, net of allowance	72,177	–
Employee advances and other	45,055	62,679
	$ 197,754	$ 197,915

6 CAPITAL ASSETS

Capital assets consist of:

	2005			2004
	Cost	Accumulated Depreciation	Net Book Value	Net Book Value
Leasehold improvements	$ 4,276,850	$ 1,655,749	$ 2,621,101	$ 3,016,623
Office furniture	1,950,105	806,466	1,143,639	1,327,400
Office equipment	633,706	366,015	267,691	337,617
Information technology assets	3,808,706	2,732,544	1,076,162	1,320,768
	$ 10,669,367	$ 5,560,774	$ 5,108,593	$ 6,002,408

7 EMPLOYEE LEAVE LIABILITY

Employee leave liability is what we owe to our employees for their accumulated vacation time and other leave entitlements not yet taken.

8 SURPLUSES

The BC government transferred assets and liabilities with a net value of $1,415,018 to us on April 1, 1995. On March 31, 2004, we offset this amount against our deficit in general surplus. This eliminated our contributed surplus.

9 RESERVES

	Fee Stabilization	Education (b)			
	Appropriation (a)	Section 162	Appropriation	Total	Total
Balance, March 31, 2003	$ 12,000,000	$ 592,109	$ 3,622,033	$ 4,214,142	$ 16,214,142
Additions	–	20,500	346,521	367,021	367,021
Investment income allocation	–	18,984	104,596	123,580	123,580
Disbursements	–	–	(785,305)	(785,305)	(785,305)
Appropriations	(178,016)	–	–	–	(178,016
Balance, March 31, 2004	$ 11,821,984	$ 631,593	$ 3,287,845	$ 3,919,438	$ 15,741,422
Additions	–	226,000	681,931	907,931	907,931
Investment income allocation	–	26,338	82,911	109,249	109,249
Disbursements	–	–	(2,095,637)	(2,095,637)	(2,095,637)
Balance, March 31, 2005	$ 11,821,984	$ 883,931	$ 1,957,050	$ 2,840,981	$ 14,662,965

a) Fee stabilization reserve In 1999 and 2000, we appropriated portions of our general surplus to the fee stabilization reserve to ensure that temporary reductions in revenue will not immediately impair our ability to operate, or require immediate fee increases. As of March 31, 2004, we appropriated $178,016 of the fee stabilization reserve to general surplus, to preclude general surplus from being in deficit.

b) Education reserve We collect administrative penalties under section 162 of the *Securities Act*. We also negotiate settlement amounts that exceed the costs of our investigations. We appropriate both of these amounts from our general surplus to the education reserve. Education reserve funds may only be spent for the purpose of educating securities market participants and members of the public about investing, financial matters or the operation or regulation of securities markets. We mix education reserve funds with our other funds for investment purposes, so we allocate a portion of our investment income to the education reserve. We have earmarked $1,085,262 of the education reserve to complete current projects.

10 ENFORCEMENT REVENUE

Due to collection uncertainty, we have not recognized revenue from administrative penalties, settlements, and enforcement cost recoveries until we received payment. Therefore, enforcement revenue includes the collection of penalties, settlements, and recoverable costs assessed in both the current and prior fiscal years. During the fiscal year, administrative penalties, settlements, and enforcement cost recoveries of $4,573,373 (fiscal 2004 – $609,329) were not recognized as revenue because we did not receive payment. We vigorously pursue all uncollected penalties, settlements, and recoverable costs.

11 RELATED PARTY TRANSACTIONS

We are related through common ownership to all provincial government ministries, agencies and Crown corporations. We conducted all transactions with these entities as though we were unrelated parties.

12 POST-RETIREMENT EMPLOYEE BENEFITS

We, and our employees, contribute to the Public Service Pension Plan, a multi-employer plan established for the benefit of certain British Columbia public service employees. The plan is contributory, and its basic benefits are defined. The plan has about 52,000 active members and approximately 30,000 retired members. A board of trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of assets and administration of benefits. An actuarial valuation of the plan is performed every three years to assess the financial position of the plan. The latest valuation, as at March 31, 2002, indicated a $546 million funding surplus for basic pension benefits. In addition to basic benefits, the plan also provides supplementary benefits, including inflation indexing. These supplementary benefits are paid only to the extent that they have been funded, which is currently done on a "pay-as-you-go" basis. If indexed benefits were funded in advance, as are basic benefits, the surplus of $546 million would become an unfunded liability of $1,234 million. Surpluses and deficits are not attributable to individual employers, but affect future contribution levels. We charged $1,033,403 to expense for employer contributions in fiscal 2005 (fiscal 2004 – $1,008,552).

13 NEW LEGISLATION EXPENSES

On October 1, 2001 we started a project to reform securities regulation. We submitted proposed legislation to the government earlier this year. The Legislative Assembly passed the new *Securities Act* on May 11, 2004. On November 17, 2004, the government decided to delay proclamation of the new *Securities Act*. Project costs are included in operating expenses and total:

	2005	2004
Salaries and benefits	$ 851,584	$ 1,540,184
Professional services	62,146	184,024
Business travel	26,739	32,958
Administration	16,994	7,576
External communications	28,900	349,522
Staff training	–	380
Telecommunications	825	1,082
	$ 987,188	$ 2,115,726

14 COMMITMENTS AND CONTINGENT LIABILITIES

a) Office lease We have leased office space to November 2011. Our annual rent is approximately $800,000 until November 2006, and $975,000 after that date. We also pay our share of building operating and maintenance costs.

b) Disaster recovery services We have contracted disaster recovery services that include the provision of off-site workgroup space, to August 31, 2007. Our annual commitments for these services are:

Year Ended	Commitment
March 31, 2006	$ 110,343
March 31, 2007	$ 116,270

c) SEDAR operations agreement CDS INC. (CDS) operates the SEDAR electronic filing and payment system on behalf of the Canadian Securities Administrators (CSA) under an August 1, 2004 agreement with the Alberta Securities Commission, British Columbia Securities Commission, Ontario Securities Commission, and L'autorité des Marchés Financiers (the CSA Principal Administrators). Under the agreement:

- The CSA Principal Administrators must pay CDS if SEDAR system operating costs exceed revenues (a "shortfall"). Our portion of that guarantee is limited to 15.4% of any shortfall.
- CDS must pay SEDAR revenues in excess of system operating costs (a "surplus") to the CSA Principal Administrators. Any surplus is not divisible, the CSA Principal Administrators own it as a group.

CDS has paid $6.0 million to the OSC, in trust, representing surpluses generated by SEDAR during the November 1, 2002 to October 31, 2004 period. The CSA Principal Administrators have agreed that these funds will be used only for the benefit of national filing system users through system enhancements or usage fee adjustments.

special thanks to our advisory groups

Many people contribute their time and effort to help us serve the public interest. We would like to extend special thanks to the following individuals for their assistance and counsel.

SECURITIES LAW ADVISORY COMMITTEE The Securities Law Advisory Committee advises the Commission on legal and policy issues relating to securities regulation. It provides an important link between the Commission and securities lawyers for consultation on emerging or important issues. The committee has 10 to 12 members. Members serve for three-year terms on a staggered basis. The vice chair of the Securities Law Subsection of the Canadian Bar Association's BC Branch, a position that rotates every year, also serves on the committee. The committee members during 2004-05 were:

Gordon R. Chambers
Lawson Lundell

Nancy Glaister
Cawkell Brodie

Mitchell H. Gropper
Farris, Vaughan, Wills & Murphy

Jed M. Hops
Morton & Company

Tim McCafferty
McCarthy Tétrault LLP

Bernard Pinsky
Clark, Wilson

Jeffrey A. Read
Fraser Milner Casgrain LLP

C. Bruce Scott
DuMoulin Black

Marion V. Shaw
Bull, Housser & Tupper

Catherine E. Wade
Heenan Blaikie

Bruce M. Wright
Goodmans

Paige Leggat*
BCSC

** Vice Chair of the Canadian Bar Association Securities Law Subsection*

SECURITIES POLICY ADVISORY COMMITTEE The Securities Policy Advisory Committee represents a cross-section of market participants and provides the Commission independent advice on administrative, regulatory and legislative matters affecting the securities industry. The committee may have up to 12 members. The provincial government appoints the members of the committee, who serve for staggered terms of three years. A member may be reappointed, but may only serve for a maximum of six years. SPAC members during 2004-05 were:

Stewart L. Lockwood
(Chair)
Vector Corporate Finance Lawyers

Brooke S. Campbell
Odlum Brown Limited

Susan A. Copland
TSX Venture Exchange Inc.

T. Alan Dixon
Dixon Capital Corp.

Philip J. Dowad
KPMG

Peter S. Gemmel
Assante Financial Management Ltd.

James L. Hoppell
Catalyst Corporate Finance Lawyers

Brenda A. Irwin
Business Development Bank of Canada

Gordon Keep
Endeavour Financial

Victor J. O'Connor
McCullough O'Connor Irwin

Alan C. Wallace
CIBC World Markets Inc.

Cecilia Wong
Leith Wheeler Investment Counsel Ltd.

Charlotte P. Bell
(Committee Secretary)
Catalyst Corporate Finance Lawyers

TECHNICAL FORUM OF THE INSTITUTE OF CHARTERED ACCOUNTANTS OF BC A body of the Institute of Chartered Accountants of BC, the Forum offers an opportunity for practicing members serving publicly traded companies to discuss their concerns with representatives of the BCSC and TSX-V. It also provides a venue for the Commission and the exchange to discuss future policy directions and their possible impact on public companies and their auditors.

Len Boggio, CA
Pricewaterhouse Coopers LLP

Matt Bootle, CA
TSX Venture Exchange

James Carr-Hilton, CA
Dale, Matheson, Carr-Hilton, La Bonte

Gordon Cummings, CA
DeH Group

William Davidson, CA
Davidson & Company

Don de Jersey, CA
BDO Dunwoody LLP

Peter de Visser, CA
De Visser Gray

Michael Essex, CA
Institute of Chartered Accountants of BC

Kevin Hanson, CA
Amisano Hanson

Rick A.S. Henshaw, CA
Smythe Ratcliffe

David Kong, CA
Ellis Foster

Stella Leung, CA
Institute of Chartered Accountants of BC

Kelvin Lum, CA
Deloitte & Touche LLP

Larry Okada, CA
Staley, Okada & Partners

Dale Peniuk, CA
KPMG LLP

Nicole Poirier, CA
Ernst & Young LLP

Jacqueline Tucker, FCA
J.M. Tucker Inc.

Doug Wallis, CA
Institute of Chartered Accountants of BC

Mark Zastre, CA
Grant Thornton LLP

CSA MINING TECHNICAL ADVISORY AND MONITORING COMMITTEE The committee is made up of mining industry technical representatives who provide advice to the regulators in the fair and reasonable implementation of National Instrument 43-101 *Standards of Disclosure for Mineral Projects*. They advise the CSA on industry and professional developments related to securities regulatory issues and how to best communicate guidance on technical disclosure to the minerals industry. There are nine committee members in 2004/2005, including four from BC, and two observers from TSX and TSX-V.

George R. Cavey
OreQuest Consultants Ltd.
Vancouver

Marie-José Girard
Dios Exploration Inc.
Montreal

Keith McCandlish
Associated Mining Consultants Ltd.
Calgary

Chester M. Moore
Noranda Inc./ Falconbridge Ltd.
Toronto

John M. Morganti
Teck Cominco Limited
Vancouver

Jim Mustard
Haywood Securities Inc.
Vancouver

Philip E. Olson
Claude Resources Inc.
Saskatoon

John T. Postle
Roscoe Postle Associates Inc.
Toronto

Kenneth R. Shannon
Corriente Resources Inc.
Vancouver

Co-chairs:

Deborah McCombe
OSC

Gregory Gosson
BCSC

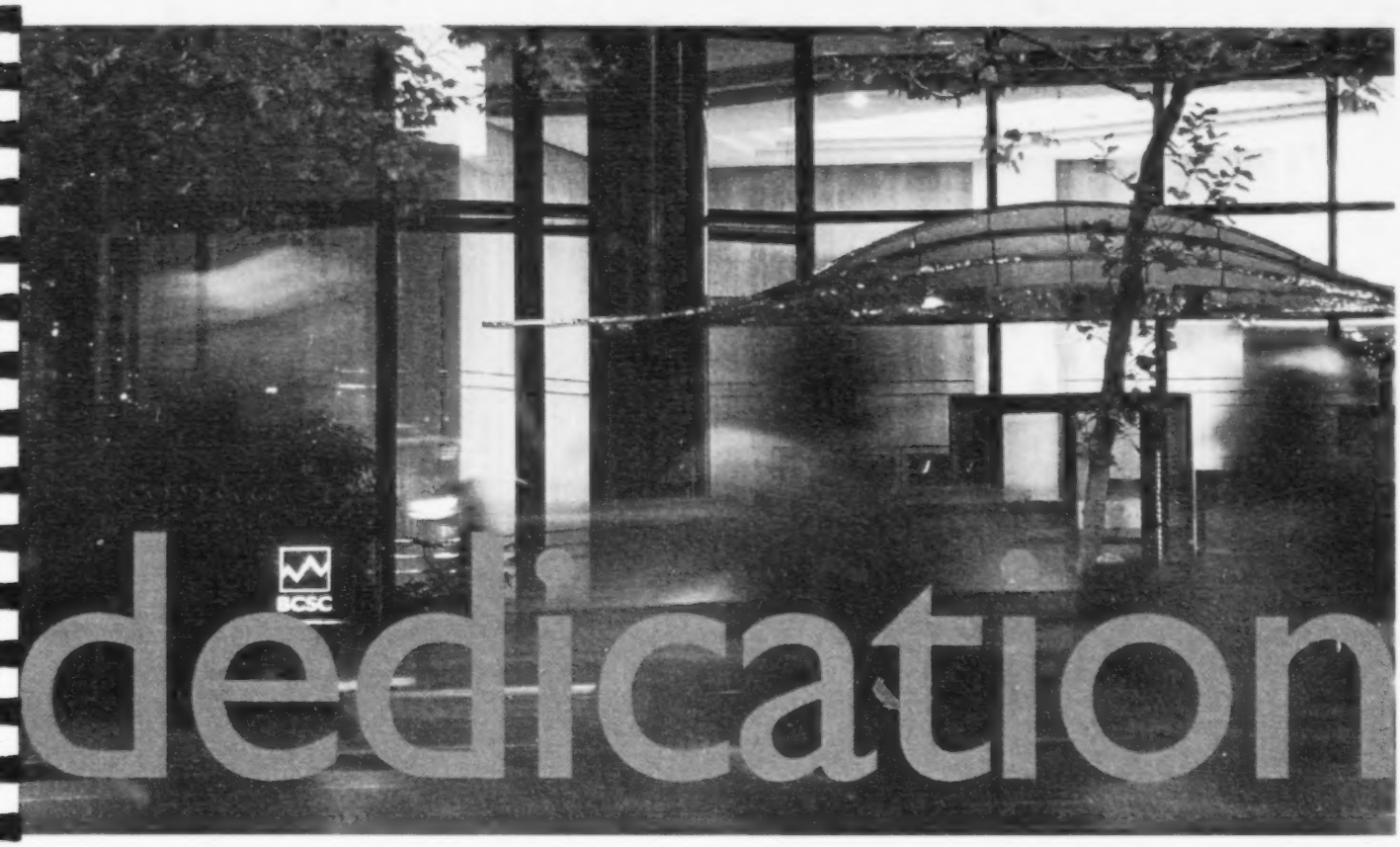
Observers:

Gilles Arseneau
TSX Venture
Vancouver

Francis Mann
Toronto Stock Exchange
Toronto

Legal Counsel:

Pamela Egger
BCSC
Vancouver



our people

Our Commission has been able to meet extraordinary challenges in the last year because of 200 extraordinary people: our staff. This team's diversity and talent make the BCSC a place where people like to stay and grow. ■ BCSC staff speak 27 languages. Many hold post-secondary degrees – all the way to PhD. In addition to excelling at work, several are also accomplished artists and athletes. ■ Our people's dedication and commitment shows as much outside the workplace as inside. Over half of our employees participate in our Staff Ambassador Program, delivering investor and industry education seminars throughout the province. This is a volunteer activity, often taking place on staff's own time in the evenings and on weekends. Staff tell us they do this because it puts them face to face with the public they serve and they like feeling that they are making a difference. ■ Many of our staff also give their time to Junior Achievement of BC, helping to deliver our Dollars with Sense course to high school students in Greater Vancouver. ■ BCSC staff have the highest contribution rate of any provincial government agency (92 %) to the Provincial Employees Community Services Fund, which donates money to a range of social service agencies in the province. Our staff also provided immediate aid this year to Tsunami relief and supported many other causes, including the Vancouver Food Bank, Canadian Blood Services, the Vancouver Sun Run and the Weekend to End Breast Cancer. ■ We thank our employees for all of their contributions on and off the job.

GLOSSARY

CONTINUOUS DISCLOSURE The legally required public disclosure by issuers of their financial statements and new releases.

COSRA Council of Securities Regulators of the Americas, of which the BCSC is a member. COSRA seeks to establish basic and common legal, regulatory and structural principles that promote efficient and liquid markets while ensuring appropriate levels of investor protection.

CSA Canadian Securities Administrators: a council of the securities regulators of Canada's 13 provinces and territories.

CTO Cease Trade Order is an order issued by a provincial or territorial Securities Commission or similar regulatory body against a company for failing to meet disclosure requirements, such as filing a quarterly or annual financial statement, or as a result of an enforcement action that involves an investigation of wrongdoing. The order prohibits trading in that company's securities.

IDA Investment Dealers Association of Canada: the trade association and self-regulatory organization for firms that trade and advise in securities.

IMET Integrated Market Enforcement Team: a partnership initiative between the federal Ministry of Justice, the Royal Canadian Mounted Police, the Vancouver Police and the BCSC to improve policing in the securities markets.

INSIDER DISCLOSURE The legally required public disclosure by insiders of their securities holdings and transactions.

IOSCO International Organization of Securities Commissions, of which the BCSC is an associate member. IOSCO promotes cooperation, mutual assistance, information sharing, and the development of standards to improve the regulation of securities markets internationally.

ISSUER A company or other entity that has issued or is proposing to issue securities.

JOINT FORUM OF FINANCIAL MARKET REGULATORS The Joint Forum was founded in 1999 by the Canadian Council of Insurance Regulators (CCIR), the Canadian Securities Administrators (CSA), and the Canadian Association of Pension Supervisory Authorities (CAPSA). It also includes representation from the Canadian Insurance Services Regulatory Organizations (CISRO).

MD&A Management Discussion and Analysis: the section of a quarterly or annual financial report in which the issuer's management makes comments concerning its financial results.

MFDA Mutual Fund Dealers Association of Canada: the self-regulatory organization for firms that specialize in trading mutual funds.

NASAA North American Securities Administrators Association, of which the BCSC is a member. NASAA consists of state, provincial, and territorial securities administrators in the United States, Canada and Mexico.

NASDAQ The NASDAQ Stock Market, Inc. is the world's largest electronic stock exchange. It is based in the United States.

NATIONAL CTO DATABASE A real-time dissemination system of Cease Trade Order (CTO) information operated and maintained by RS. The database contains names of all Canadian companies whose shares have been cease traded, including shares traded on the TSX and TSX Venture Exchanges, as well as Canadian companies traded in other jurisdictions.

NRD National Registration Database: an electronic filing system for registration applications and information.

OTC BULLETIN BOARD A quotation service that displays quotes, last-sale prices and volume information for equity securities trading over-the-counter in the United States.

REGISTRANT A firm or individual that is registered under the Securities Act to trade or advise in securities.

REPORTING ISSUER A company that has offered securities to the public or listed its shares on an exchange. These issuers, often called "public companies," are subject to the Continuous Disclosure requirements of securities laws.

RS Market Regulation Services Inc.: the self-regulatory organization that oversees trading on exchanges and other markets.

SEDAR System for Electronic Document Analysis and Retrieval: the national electronic filing system for disclosure by public companies and mutual funds.

SEDI System for Electronic Disclosure by Insiders: the national electronic system for filing insider reports.

SRO Self-regulatory organization

TSX Toronto Stock Exchange: TSX is a subsidiary of TSX Group

TSX VENTURE EXCHANGE The national junior equity exchange, now a subsidiary of TSX.

TSX GROUP A public company that owns the Toronto Stock Exchange, TSX Venture Exchange and TSX Markets.

contact information

For information on securities regulation in BC, our current annual report, or brochures on important topics, contact us at:

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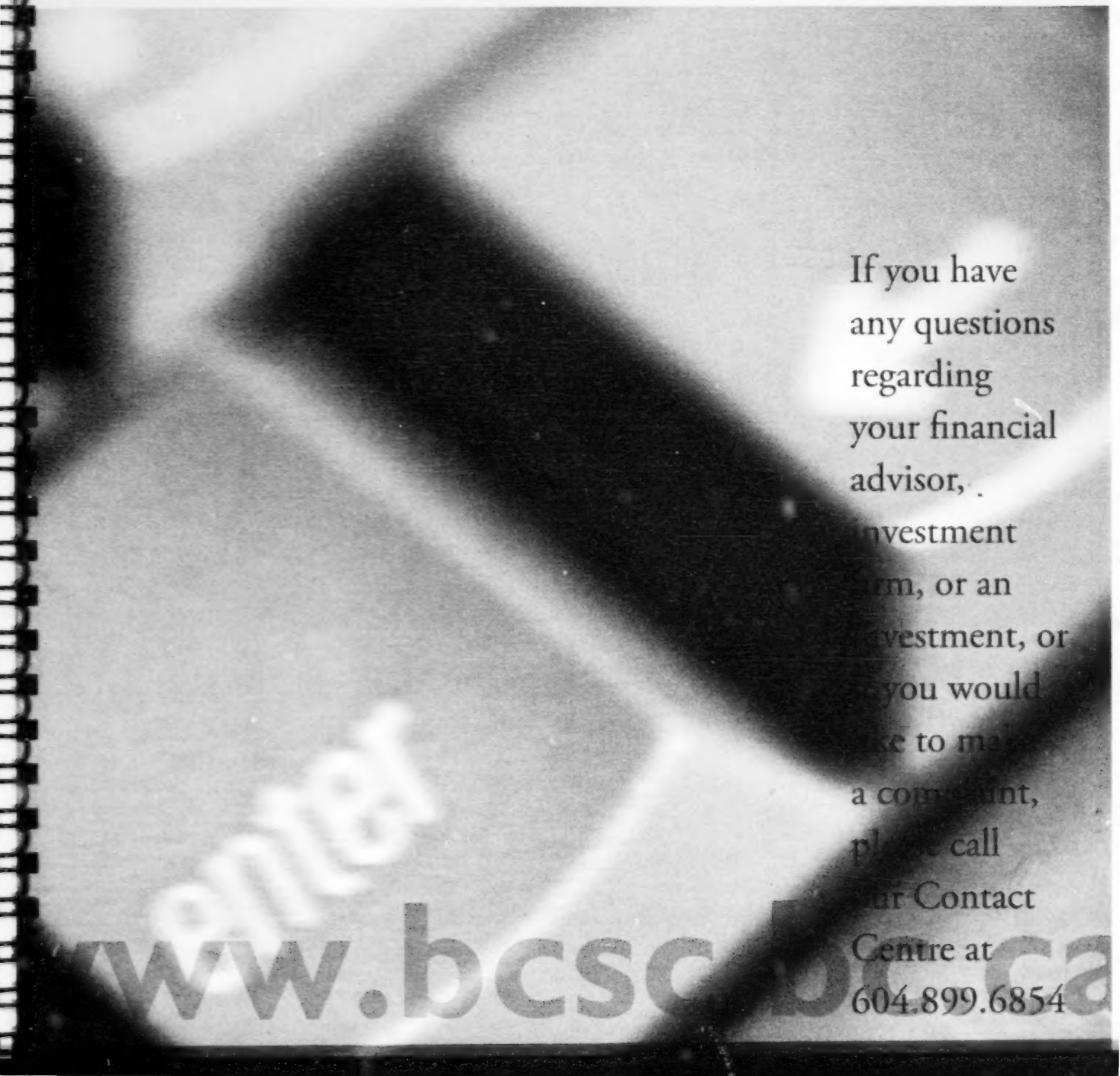
Web: www.bcsc.c.ca
Search our website databases to:
check an adviser's credentials
track insider trading reports
view our disciplined persons list
see BCSC rules, policies and decisions

For information about public companies and mutual funds, visit the SEDAR website www.sedar.com


If you have any questions regarding your financial advisor, investment firm, or an investment, or you would like to make a complaint, please call our Contact Centre at 604.899.6854
www.bcsc.bc.ca

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